

ECONOMY NEWS

Expert: Saudi oil may have peaked

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France*

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As oil prices remain above \$45 a barrel, a major market mover has cast a worrying future prediction.

Energy investment banker Matthew Simmons, of Simmons & Co International, has been outspoken in his warnings about peak oil before. His new statement is his strongest yet, "we may have already passed peak oil".

The subject of peak oil, the point at which the world's finite supply of oil begins to decline, is a hot topic in the industry.

Arguments are commonplace over whether it will happen at all, when it will happen or whether it has already happened. Simmons, a Republican adviser to the Bush-Cheney energy plan, believes it "is the world's number one problem, far more serious than global warming".

Saudi oil peaking?

Speaking exclusively to Aljazeera, Simmons came out with a statement that, if proven true over time, could herald by far the biggest energy crisis mankind has known.

"If Saudi Arabia have damaged their fields, accidentally or not, by overproducing them, then we may have already passed peak oil. Iran has certainly peaked, there is no way on Earth they can ever get back to their production of six million barrels per day (mbpd)."

The technical term for damaging an oilfield by overproduction is rate sensitivity. In other words, if the oil is pulled out of the ground too fast, it damages the fragile geological structure of the field. This can make as much as 80% of the oil within the field unextractable. Of course, at the moment, virtually every producer is at full tilt. The most important among them is Saudi Arabia; their Gharwar field is the world's biggest.



The Saudi Arabian oilfield al-Qatif east of Riyadh

One of the first hints that Simmons got over possible Saudi Arabian overproduction was from researching an obscure US Senate committee meeting in 1974.

Field damage

"A whistleblower in Saudi Aramco, Saudi Arabia's oil company, was first reported in The Washington Post. He had claimed that Aramco had been overproducing the giant Gharwar field and that if they did not slow down, they would damage the reservoirs.



Simmons believes Iran's oil production has also peaked

"The committee, which swore witnesses in under oath, produced over 1400 pages of documentation on the subject, it included some specialist advice which advised cutting Saudi production to 4mbpd to maintain production levels."

Currently, at near maximum production, Saudi Arabia is producing about 9mbpd, though recently they claimed they could potentially produce 12mbpd or even as much as 20mbpd. A claim Simmons called "pie in the sky".

"The faster you pull a reservoir, the faster you pull out all of the easy-to-produce oil," explains Simmons. "What happens is that you lose massive amounts of what the oil industry calls oil-left-behind still inside the field. These issues, as you can see, have been known about for years."

Overproduction

"If you look at what Iran is doing, they are actually going to inject natural gas to the tune of 2bcf (billion cubic feet), through a 72in pipe into their Aghajari oilfield. It is a \$2bn project. This is in order just to boost production from 200,000bpd to 300,000bpd. In the 1970s Aghajari was producing 1mbpd. It has been overproduced."

Simmons also says the same thing happened with the oil company El Paso last year.

"At the same time as the Shell write-off, El Paso realised they had been producing their fields too hard. As a result they had to write off 41% of their reserves." In 2004 Shell first announced it had lost about 20% of its oil reserves.

Another clue came as Simmons discovered a ferocious debate that had been going on inside Saudi Aramco



about overproduction.

In 2004 Shell said it had lost 20% of its reserves

"The company claimed in the early 1970s that it would be able to produce 20 to 25 mbpd, then by 1978 it was 12mbpd. Now it looks like 9.8mbpd is the maximum," he says.

Precious resource

"Luckily for them, demand quietened down in the 1980s. People thought when they cut production that they were simply trying to drive up oil prices, but in fact they were resting their fields to limit the damage.

"But then came the first Gulf war and they were forced to crank production up again and they have been fighting the problem ever since.

"In 1981 in their own book, Aramco and its World, something they give out to new employees and such, they openly talked about how maximising production would permanently harm their fields and that maximum production could not continue. They thought demand would fall and the fields would be sustained. Unfortunately that has not been the case."

The reasons for maximising production are not always obvious, they can be technical, but also geo-political.

"There is always a balance for producers. Do you want to conserve your fields and produce slowly? Or do you want to be a statesman? Would you rather be a market leader with all that brings, or a smaller, less powerful producer?"

The idea that Saudi Arabia could force its production up to 12mbpd or higher is met with scorn by Simmons.

"This is dangerous stuff," warns Simmons. "If we say they have not peaked and then they choose to further increase production, they will only hasten their field decline, and waste huge amounts of valuable oil into the bargain. And oil, as we are only now coming to realise, is the world's most precious resource."