



DRILLING AHEAD

The new energy crisis: Truly the cry of the wolf or just a 'MEOW'?

Mike Killalea, Editor & Publisher

"The oil and natural gas we rely on for 75 percent of our energy are running out.... World oil production can probably keep going up for another six or eight years. But some time in the 1980s it can't go up much more. Demand will overtake production. We have no choice about that."-Jimmy Carter, 1977

THE WORLD HAS been running out of oil since the Drake well, and with the return of higher energy prices, media and public interest is keen. However wrong the timing of then-President Carter above remarks—part of his celebrated “moral equivalent of war (MEOW)” speech—his conclusion of demand overtaking production appears born out. So says the conventional wisdom, at any rate.

The supply of oil has always depended on price. Marginal economics at \$20/bbl are transformed to good business at \$40. The problem for our industry over the last 30 years has been sustaining commodity prices. In the booms of the past, commodity prices rise, drilling soars, enterprising drillers buy high, equipment prices skyrocket, and the smart money sells out and moves to Hawaii. Then the bust comes and the rest of us go broke.

Supply and demand, meanwhile, are a fickle pair and a delicate teeter totter. One barrel too many spells glut. One too few, let the good times roll.

We have heard cry-wolf forecasting with dulling regularity. The '73 and '78 shocks, recall, were primarily political events, prompted by revolution and embargo. Yet a mantra of “running out of oil” still arose, despite obvious geopolitical factors.

The conventional wisdom has shown itself 180 degrees wrong so often that it's easy to discount the soothsayers. Is this time different? In recent days, we've experienced the unlikely spectacle of OPEC struggling to lower oil prices,

rather than buoy them. Who'd of thought.

Today, the emphasis is more subtle than mere panic of imminent exhaustion of the world's hydrocarbons. Instead, analysts are alert for signs of a global “Hubbert Peak”, the top of a bell-shaped curve after which global production will irreversibly decline. The phenomenon is named for Shell geophysicist **Dr M King Hubbert**, who accurately predicted in the mid-1950s that US oil production would peak by 1971 and decline thereafter. Some say we have reached a global Hubbert already. Others maintain the day is 20 years off.

Groppe Long & Littell, analysts with a history of getting it right, noted recently that past periods of oil-price stability were achieved only through strong market control, first by **Standard Oil** (1978-1914), and later by the **Texas Railroad Commission** (1935-72). Overall, says GLL, “The future of oil is declining total production with steady increase in prices.”

Matt Simmons, founder of **Simmons International & Co**, brought to our attention some time back that 70% of the world's production flows from fields more than 30 years old. At the same time, the boom in, among other things, Chinese automobile manufacture is literally driving demand straight up the wall.

Meanwhile, our industry has been savaged by inactivity, its rolls of skilled workers decimated. A friend recently retired after 30 years with a well-known oil producer. He recounts seeing production fall 40% in that time, and staffing cut back nearly 60%. While that paints a pretty pale legacy, production per employee is nearly twice as high today as 30 years ago. I suppose that says something about efficiency, but it misses my warm and fuzzy spot.

Time will tell if oil supply has permanently slipped below demand. If it has, the question becomes, will we respond vigorously to the new energy challenge, or simply “meow”?

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FOR MORE INFORMATION

CONTACT Leesa Teel

at: 713-292-1945

OR EMAIL TO: leesa.teel@iadc.org