

NEWS RELEASE

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NEW OIL PROJECTS CANNOT MEET WORLD NEEDS THIS DECADE

World oil supplies are all but certain to remain tight through the rest of this decade, unless there is a precipitous drop in demand, according to the results of a study by the London-based Oil Depletion Analysis Centre (ODAC).

The study found that all of the major new oil-recovery projects scheduled to come on stream over the next six years are unlikely to boost supplies enough to meet the world's growing needs.

ODAC analysed a total of 68 'mega projects' with publicly announced start-up dates from 2004 through 2010. In total, these projects would add around 12.5 million barrels a day to world oil supplies by the turn of the decade.

"This new production would almost certainly not be sufficient to offset diminishing supplies from existing sources and still meet growing global demand," ODAC Board member Chris Skrebowski said.

More than half of the estimated new supply would simply replace production declines elsewhere due to natural depletion, the study found. A modest one percent annual rise in demand over the six-year period would then leave little or no surplus capacity to cushion against unforeseen disruptions in supply.

If demand were to increase by two percent annually, available supplies could fall short of the total needed in 2010 by more than two million barrels a day – roughly equivalent to losing all of Kuwait's current daily production.

"With most producers operating flat out to meet runaway demand increases this year, the

world's immediately available spare production capacity has virtually disappeared," Mr Skrebowski said. "This means that significant additional supplies in the near-to-medium term must come from new projects already in the development pipeline."

"We now see those projects providing surprisingly limited relief in terms of incremental supply in coming years, and indeed physical shortages appear ever more likely if demand remains strong," he said.

"Even with relatively low demand growth, our study indicates a seemingly unbridgeable supply-demand gap opening up after 2007," he said.

Mr Skrebowski, who is editor of the UK trade magazine *Petroleum Review*, compiles and regularly updates the details of planned major oil-development projects, as reported by the oil companies. The list contains all announced projects with at least 500 million barrels of estimated reserves and the claimed potential to produce 100,000 barrels a day or greater.

Using that list, ODAC examined three demand-growth scenarios of one, two and three percent a year to illustrate the likely range of outcomes. It also assumed that the combined annual rate of production losses from those countries where output is now permanently declining would remain constant each year, despite evidence that it appears to be accelerating and the likelihood that more producers may go into decline soon.

"The effect of depletion in mature oil-producing regions is now becoming a much more significant factor in the supply-demand equation," Mr Skrebowski noted.

According to data from the latest *BP Statistical Review of World Energy*, 18 major oil-producing countries are now past their peak production, and their combined annual output dropped by over a million barrels a day in 2003. This group of countries now accounts for almost 29 percent of total world production.

The ODAC study did not attempt to forecast when other countries would peak and tip into decline, but experts agree that several more are likely to do so within the next few years. Mexico and China, the world's fifth- and sixth-largest producers respectively, appear to be among the likely candidates.

Mexico's national oil company, Pemex, has already announced that production from Cantarell, the world's largest offshore oil field, is expected to peak in 2006 and then decline by 14 percent a year. China, too, has confirmed that its two largest producing regions are now in decline. It achieved only modest overall production growth last year of 1.5 percent.

Of the 68 confirmed projects that ODAC analysed, 56 are due to come on stream in the next three years. Seven are scheduled to start pumping oil in 2008, three in 2009 and just two in 2010. Since it takes, on average, six years from first discovery for a major project to start producing oil, any other new projects approved now would be unlikely to add further supplies until after 2010.

"It is disturbing to see such a dramatic fall-off of new project commitments after 2007, and not more than a handful of tentative projects into the next decade," Mr Skrebowski said.

"This could very well be a signal that world oil production is rapidly approaching its peak, as a growing number of analysts now forecast, especially in view of the diminishing prospects for major new oil discoveries," he said.

Industry consultants IHS Energy recently reported that 85 percent of all the oil ever discovered is now in production, and only half the total produced last year was replaced by new field discoveries. Annual consumption has now exceeded new discoveries every year since the early 1980s. Overall, worldwide oil discoveries have been declining steadily for the past 40 years.

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Note to editors:

1. The Oil Depletion Analysis Centre (ODAC) is a UK-registered educational charity working to raise international public awareness and promote better understanding of the world's oil-depletion problem. Further information is available on its website: <http://www.odac-info.org>
2. Chris Skrebowski is one of seven members of ODAC's Board of Directors and editor of *Petroleum Review*, a monthly magazine published by the Energy Institute in London. He previously edited *Petroleum Economist* and was an oil market analyst for the Saudis in London for eight years. He started his career in the oil industry as a long-term planner for BP, then joined *Petroleum Times* as a journalist and edited *Offshore Services* magazine in the late 1970s.