The Oil Drum: Europe
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Countdown to $200 oil: International Energy Agency says current prices justified...

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It is oddly fitting that we touched $100 oil on 31 December and got halfway from $100 to $200 oil on 30 June - so we're on track to reach $200 oil by 31 December this year (in case you're wondering: +42% and again +42% from that level = +100% from the initial level).

It is also fitting that on that same date, the International Energy Agency published one of its gloomiest ever analyses of the oil markets, asserting that oil prices are justified by fundamentals

> It said: “Like alchemists looking for a way to turn basic elements into gold, everyone wants a simplistic explanation for high prices,” bluntly adding: “Often **it is a case of political expediency to find a scapegoat for higher prices rather than undertake serious analysis or perhaps confront difficult decisions**.”

Opus 9 of the Countdown to $200 oil series.

I have been told by a reliable source that the IEA has been forbidden by the US administration from updating their absurdly cornucopian oil supply and demand scenarios until the report that comes out late this year (after the election); that report, which will publish the result of a "bottom-up" analysis (ie a summary of all existing oil fields, their production and/or prospects) is expected to show that oil production is unlikely to reach the levels that so many have blithely assumed - notably on the basis of previous optimistic IEA reports. The IEA, which was deeply unhappy about the current lies to was supposed to present and support, has been leaking word of the expected content of that new report for many weeks now, including an increasingly alarmist tone in its official reports, such as today's Medium Term Market Outlook:

> “Structural demand growth in developing countries and ongoing supply constraints continue to paint a tight market picture over the medium-term,” the IEA said in its Medium-Term Oil Market Report, released on Tuesday in Madrid.
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> “Poor supply-side performance since 2004, in the face of strong demand pressures from developing countries, has forced oil prices up sharply to curb demand,” the watchdog added.

Strong demand, disappointing supply. Hmm, where have I read this already?

> The IEA said that despite billions of dollars of investment, the challenge of pumping ever more oil out of their aging fields is proving so great that non-Opec countries will in the next five years have to rely on biofuels, such as corn-based ethanol, for 50 per cent of their growth in overall fuels.
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> The fast decline of fields – especially in the North Sea and Mexico where production is shrinking by more than 20 per cent each year – means that 14.8m of the 16m barrels of new supply from non-Opec countries over the next five years will go to making up for losses from old fields producing less and less each year.

This is one of the most important trends in current oil markets: the depletion of existing fields, and the decline in their production. It's long been discussed in specialised sites like this one but it's been ignored in the "serious" media for too long. and yet, discussions of new fields coming into production cannot paint a correct picture of future production trends if these declines are not deducted to get net production increases.

And the stark truth is that in most of the world, the declines are bigger than the new capacity additions. This is particularly true in "friendly" production zones like the North Sea, Mexico or even Russia, where overall decline rates are dizzying and actually impact global production numbers significantly.

> But Opec is also struggling, with project delays impacting its ability to add new capacity. The IEA substantially downgraded its expectations for Opec crude capacity from 2008-2013, cutting earlier forecasts by 1.2m b/d.
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> The IEA said it believed Saudi Arabia was having bigger problems than the kingdom, the world's largest exporter, was willing to admit to, despite its national oil company having gone to great lengths last month to reassure energy ministers gathered in Jeddah that, except for Khursaniyah, its capacity editions were running on schedule.

Now the IEA is getting close to heresy territory, noting that Saudi claims about its ability to maintain or increase its production should be met with increasing skepticism.

Of course, none of that is news for readers of this site or even of my Countdown to $200 oil series, but, as we know, we're not Serious People - but the IEA is the ultimate in Seriousness, so this is big news. And I say that quite seriously (pun intended): many governments, and countless businesses, not to mention pundits, use the IEA numbers religiously when preparing scenarios, business plans or pontificating. Changing these underlying numbers will have MAJOR impact on public discourse on energy.

It's maybe not too late yet.