Will New Oil Fields Avert the Peak Oil Crisis?

By Keith Kohl | Tuesday, January 22nd, 2008

A few of you wrote to me last week asking what my thoughts were concerning *world oil production*. Specifically, the majority of you wanted to know whether I felt new oil field production will be enough to save global production. (On a side note, some of your comments were a bit more colorful than others.)

Regardless of how the question is phrased, do I feel new production is going to save us?

The simple answer is: Not a chance in hell.

But, as usual, your questions got me obsessed. I couldn't think of anything else the entire weekend. It wasn't enough for me to simply look at the new fields coming online. After all, we've had a number of positive discoveries lately. In 2007, China discovered a nice offshore oil field that could hold up to could hold up to 2.2 billion barrels in reserves. Also remember the discovery of the Tupi field off the shores of Brazil, which is estimated to have between five and eight billion barrels of oil.

With news like this coming out, how can I be so critical?

Well, there are actually several reasons for my skepticism . . .

New Oil Fields to the Rescue?

To answer your questions, let's first take a look at the decline rate. CERA (Cambridge Energy Research Associates) reports that production from the world's oil fields is declining at an annual rate of 4.5%.

If world production is around 85 million barrels per day, that comes out to just under four million barrels per day we'll need to make up to offset decline. Remember, that number is coming from a survey of approximately 800 oil fields and is more than half of the 8% decline other analysts are predicting.

Let's also forget for a minute that the largest producers like Saudi Arabia refuse to disclose their field data.

Even CERA's low prediction of 4.5% is *still* a significant amount of new oil the world will need to make up. That's like finding a new Iran every year.

What if the decline rate is up to 8%? That would mean we'll need to find the equivalent of one new Saudi Arabia each year!

Stop for a second and take a look at some of the world's producers. Saudi Arabia is in serious trouble. The fact is that 65% of their oil production from 1948 to 2000 has come from the massive Ghawar field, which comes out to roughly 65 billion barrels. Now that Ghawar is in decline, the Saudis are going to be hard pressed to make up the difference.

At least they had a good run.

Perhaps Ghawar is on its way to being the next Cantarell. As you know, the giant Mexican field is in a major decline, falling more than 20% per year. The U.S. is well aware of how serious this is. Oil imports from Mexico have dropped around 11% in 2007.

I can't blame the Saudis for hiding their field data.

If we found out how bad it really is over there, do you honestly think the U.S. wouldn't start looking elsewhere? We actually *have* begun easing our dependence on Saudi oil, but I'll save that for next week.

Cantarell and Ghawar are just two examples, and out of the world's ten largest oil fields, only one is expected to raise production.

Why am I so worried about the giant fields?

It's because we're no longer finding them.

The major offshore discoveries last year in Brazil and China together boast more than 10 billion barrels of reserves. But let me ask you this: "What do 10 billion barrels of reserves mean to us right now?"

Absolutely nothing.

Reserves mean next to nothing if you don't have the means to produce them.

These offshore fields, the best discoveries of 2007, are going to take a tremendous amount of investment dollars as well as years of development to bring into production. The Tupi field off Brazil's coast could cost up to $100 billion dollars to develop.

The truth is that we're drilling farther and deeper than ever before, and all for lesser quality oil. Over the next five years, people are going to get a very real understanding of how peak oil will affect our world because the impending energy crisis is coming and coming quickly. To read more on peak oil and how it will impact you, click here now.

Until next time,