30 December, 2006

Hello to all,

Some things to ponder as the year ticks over.

TOP PRODUCERS
In millions of barrels per day, in 2004

1	Saudi Arabia	10.5
2	Russia	9.3
3	United States	8.7
4	Iran	4.1
5	Mexico	3.8
6	China	3.6
7	Norway	3.2
8	Canada	3.1
9	Venezuela	2.9
10	United Arab Emirates	2.8
11	Kuwait	2.5
12	Nigeria	2.3
13	United Kingdom	2.1
14	Iraq	2.0
15	Algeria	2.0
16	Brazil	1.8
17	Libya	1.6
18	Kazakhstan	1.2
19	Indonesia	1.2
20	Angola	1.1

TOP CONSUMERS
In millions of barrels per day, in 2004

1	United States	20.7
2	China	6.4
3	Japan	5.4
4	Russia	2.8
5	Germany	2.6
6	India	2.5
7	Canada	2.3
8	South Korea	2.1
9	Brazil	2.1
10	France	2.0
11	Mexico	2.0
12	Italy	1.6
13	Saudi Arabia	1.8
14	United Kingdom	1.8
15	Spain	1.6
16	Iran	1.5
17	Indonesia	1.2

Note that China accounted for more than 40% of the growth in the world's demand for oil in 2004. Depending on its rate of growth China will match the US in number of cars, and resulting demand for oil, in as little as 10-15 years. Unfortunately, China has adopted the Los Angeles model of urban planning: none. It is marked by uncontrolled sprawl, sparse public transportation in new areas and a wholesale abandonment of the bicycle for the automobile.

The US net import requirement (production 8.7 – demand 20.7) in 2004 was 12 million barrels of oil per day.

In 2001, the European Union net import requirement (production 3.42 – demand 14.59) was 11.17 million barrels of oil per day.

The US economy GDP (purchasing power parity) in 2005 was $12.3 trillion, the EU economy GDP (purchasing power parity) was $12.18 trillion.

By these measures, the US required 1.02583 and the EU 1.09042 million barrels of net oil per day per trillion dollars of economic GDP.

In this regard, Europe, which often castigates the US for being oil wasting, SUV driving, world-destroying energy spendthrifts, is at parity for net oil used per economic unit of production with those dastardly Americans.

Also, looking at these numbers, it is easy to see why Europe takes a different tack to world affairs regarding oil than the U.S. when you realize they currently import 77% of their oil, their production declined 8% in 2005 and their imports are projected to rise 29% by 2012. Even worse, most of their oil and natural gas comes from Russia and the Middle East, neither of which can be considered rock-solid reliable sources in the near- to mid-term. For this reason, if no other, America should expect continuing revilement and denigration in the ongoing beauty contest competition for preferential access to oil by the industrialized economies.

Aside from the political theater and the minor turf wars, geopolitics in our era comes down to strategic resources and access to the same. It's why everywhere Steph and I go in the world with any strategic resources we see the Chinese staking out claims and cultivating relationships. There's a limit to how long China's ruling Communist Party can contain their 1.3 billion people with occasional revisiting of Japanese war atrocities and the inevitable retaking of the wayward province Taiwan. In order to keep the party in control they've got to keep shoveling ever increasing amounts of the world's extractive resources into their rapidly expanding economy to keep the newly minted middle class masses satiated with cars, televisions and appliances. Among other resources, that takes oil – and lots of it.

As such, when considering geopolitics, it is illuminating to review who has the proven oil reserves.

Rank	Country	Oil - proved reserves (bbl)	Date of Information	% of World Reserves
1	World	1,349,000,000,000	1 January 2002 est.	
2	Saudi Arabia	262,700,000,000	2005 est.	19.47%
3	Canada	178,900,000,000	2004 est.	13.26%
4	Iran	133,300,000,000	2005 est.	9.88%
5	Iraq	112,500,000,000	2005 est.	8.34%
6	United Arab Emirates	97,800,000,000	2005 est.	7.25%
7	Kuwait	96,500,000,000	2005 est.	7.15%
8	Venezuela	75,590,000,000	2005 est.	5.60%
9	Russia	69,000,000,000	2003 est.	5.11%
10	Libya	40,000,000,000	2005 est.	2.97%
11	Nigeria	36,000,000,000	2005 est.	2.67%
12	Mexico	33,310,000,000	2005 est.	2.47%
13	Kazakhstan	26,000,000,000	1-Jan-04	1.93%
14	Angola	25,000,000,000	2005 est.	1.85%
15	United States	22,450,000,000	1-Jan-02	1.66%
16	China	18,260,000,000	2004	1.35%
17	Qatar	16,000,000,000	2005 est.	1.19%
18	Brazil	15,120,000,000	2005 est.	1.12%
19	Algeria	12,460,000,000	2005 est.	0.92%
20	Norway	9,859,000,000	1-Jan-02	0.73%
21	European Union	7,294,000,000	1-Jan-02	0.54%
22	Oman	6,100,000,000	2005 est.	0.45%
23	India	5,700,000,000	2005 est.	0.42%
24	Indonesia	4,600,000,000	2005 est.	0.34%
25	Ecuador	4,512,000,000	2005 est.	0.33%

Many Americans, and even a few Canadians, are surprised to see Canada at number three. When we visit Canada our friends there, and the population as a whole, all share a common and never ending anxiety about being absorbed into the US. I'd say that given their oil reserves a more likely outcome would be them becoming an eastern province of Greater China or the US becoming the lower Canadian provinces. It's all about strategic resources.

In this regard, the next few decades of geopolitics can be simplified to a game of musical chairs with an increasing number of players, including the rapidly growing economies of India and China, competing for a very limited number of seats, while the music is controlled by tangential factors such as Islamists, Castro-with-oil-money Hugo Chavez, newly nuc-empowered Iran & North Korea and other people, tribes, countries, factors and ideologies that haven't even arisen yet.

The game, currently appearing mostly civilized to the folks back home, promises to become a full-on cage match as global demand continues to climb and supply continues to become less and less dependable. Given the history, current state, and probable near-term futures of both the producers and the consumers of oil, open conflict in a last-society-standing-keeps-their-cars grudge match seems likely. It would be great if the US could just leverage one of its last, greatest strengths and manage the marketing, media and syndication rights to the ensuing Battle Royale, but unfortunately, it could very well be America's swan song as a supposed super power, the closing chapter in a masterfully managed game of cut throat that the other players have been working towards since the end of the Cold War.

Throw in China's trillion dollar reserves of hard currency and rising internal consumer demand for the manufactured goods they now export, the Gulf oil producing countries awash in $500 billion annual oil revenue surpluses, the massive US current account deficit, the weakening US dollar, the move by countries worldwide to move their foreign reserves from dollars to euros and you end up with prospects for very interesting times ahead.

From the time you woke up this morning until your eyes pop open tomorrow the US will send about $500 million dollars overseas in those 24 hours to buy imported oil. A good portion of it, 20%, 40%, 60%, who knows – pick a number, will go directly into the pockets of Islamists, extremists, totalitarian regimes and dictators whose number one goal is to destroy America. It's the first self-funded destruction of a society in the history of our species.

And just think, if in October 2001 America had been challenged with a 10 year "Apollo Mission" to eliminate its oil dependence on people like Islamists, tin-pot dictators and brutal, repressive regimes by playing to its strengths of optimism, innovation, invention, ingenuity, creativity and entrepreneurship, we'd be halfway there by now.

Happy New Year.

Be well,
Doug

Sources:

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