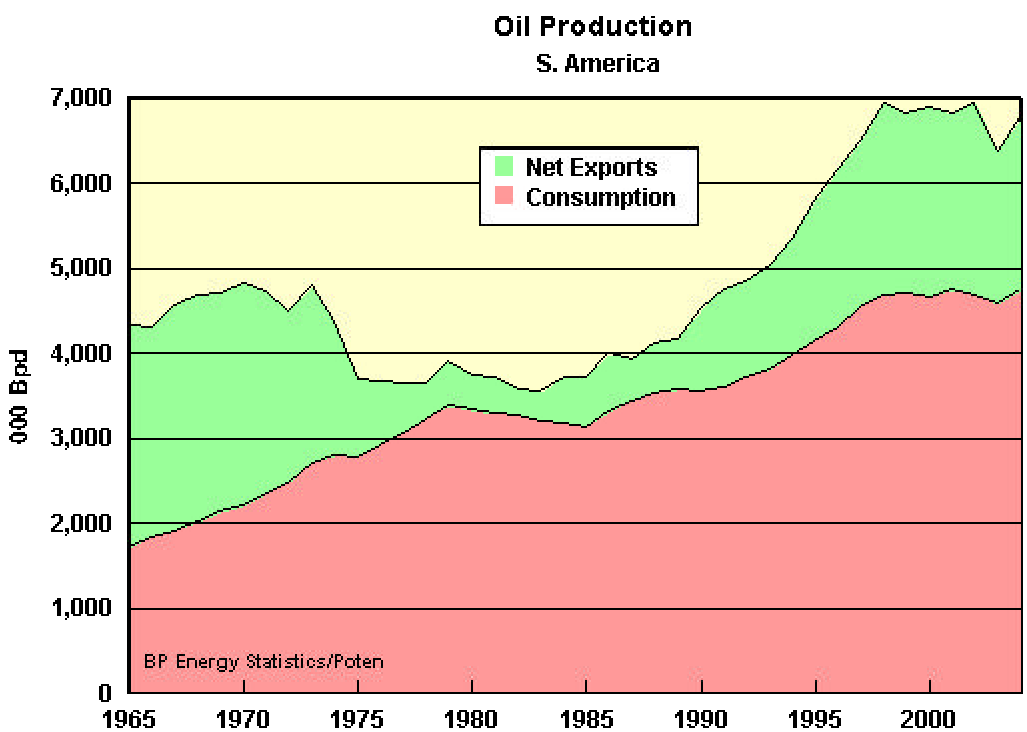
The Rise of Oil Empires 7/15/05

To complement last week's "The Fall of Oil Empires", we will consider the other side of the picture of where the oil is coming from to meet growing demand plus compensate for declining production in certain areas of the world.

South America

South America has an inconsistent history as an oil exporting region. In the 1970s, South America (mainly Venezuela) was a major source of oil exports, but it sharply declined after the nationalization of Venezuela's oil industry.



In the early 1980s, South American oil production reached a low point of 3.5 million bpd, but subsequently improved with Venezuela restoring its production plus significant gains in Brazil, Colombia, Ecuador, and Argentina. However in recent years, South America's production has leveled off at about 6.8 million bpd. Venezuela's production has declined due to political developments and a growing reluctance by foreigners to invest in Venezuela, offset by gains in Brazil and Ecuador. South America's consumption has leveled off since 1999 at 4.7 million bpd. Looking into the future, it appears that the net export potential of South America is not likely to grow significantly.

Africa

Africa is a major world oil exporting region whose exports are accelerating. Its 2004 oil production hit a peak of 9.3 million bpd, up 800,000 bpd from the year before.

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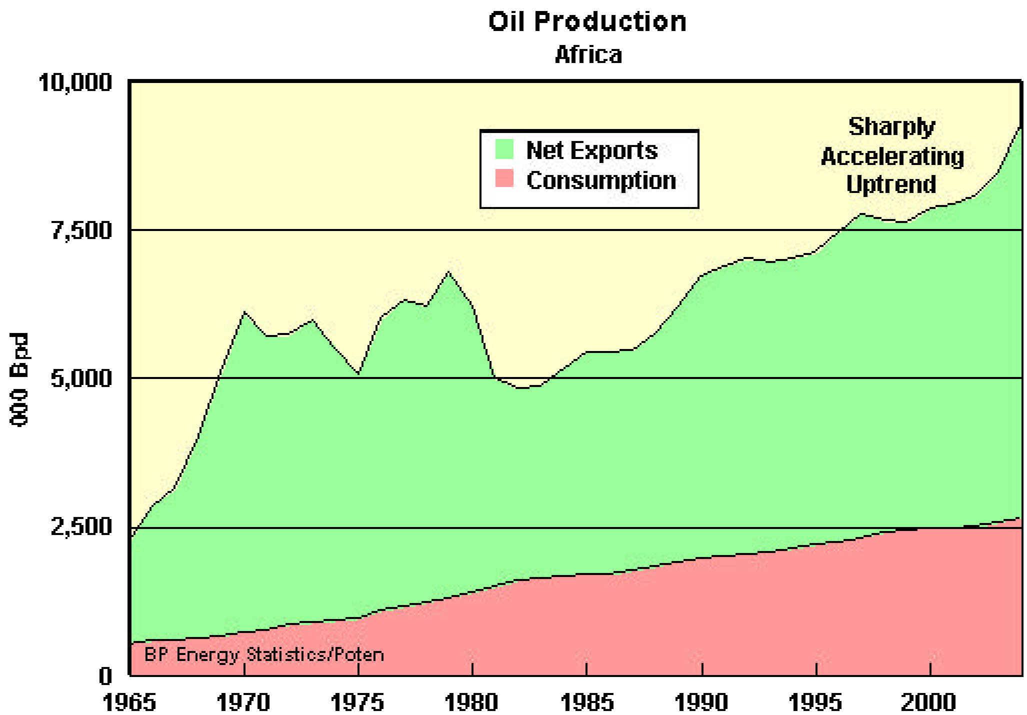
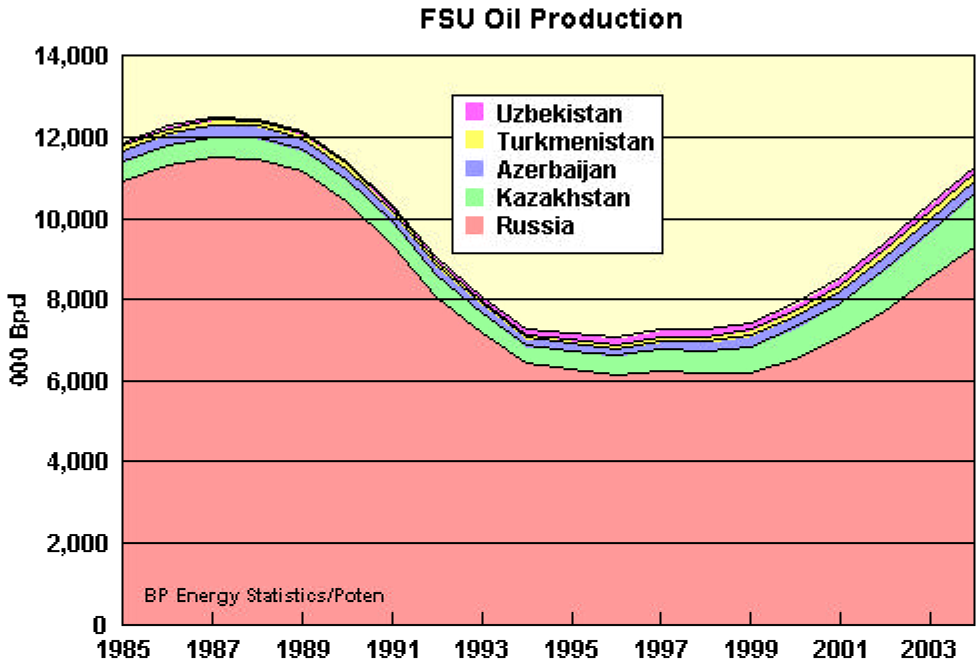


Between 2003 and 2004, production in Libya and Algeria increased by 200,000 bpd, Nigeria by 240,000 bpd, Chad by 140,000 bpd, Equatorial Guinea and Angola by 100,000 bpd each, and Sudan by 50,000 bpd. Africa's overall gain of 800,000 bpd is net of declines in Egypt and Gabon. Oil exploration and development is in high gear and the continent should exhibit continuing growth in exports.

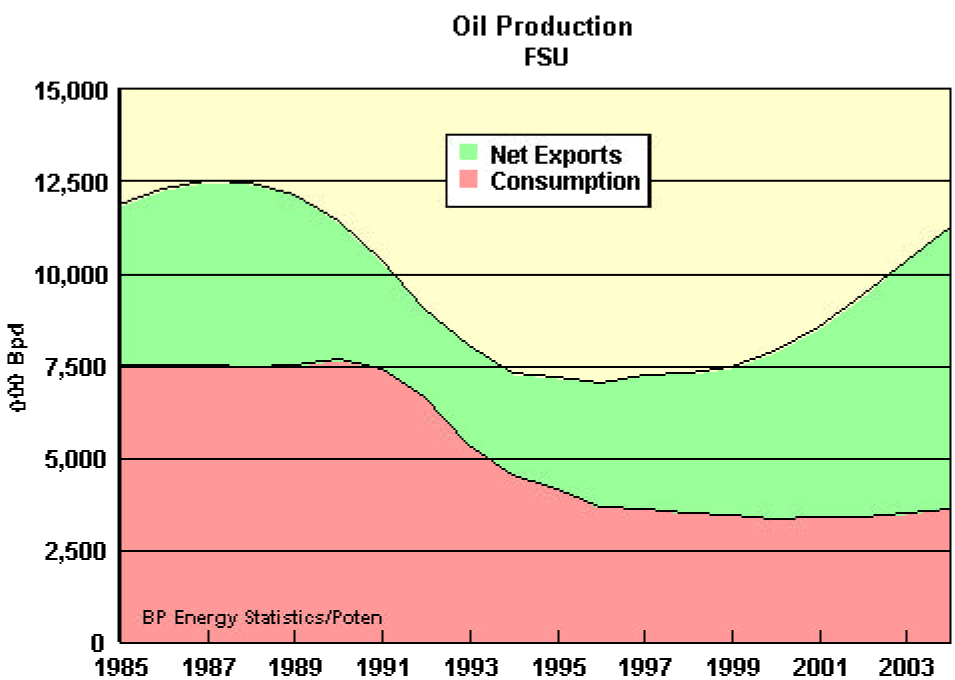
Former Soviet Union

With the fall of communism, FSU oil production declined severely, but has been recuperating since 1999, led by Russia and Kazakhstan.

FSU Oil Production



Netting out consumption, export availability fell significantly in the early 1990s, but has come back with a vengeance. A large part of this export availability, however, is due to depressed domestic demand from economies that have not yet fully recovered. As FSU economies improve, export availability may be reduced.



Arabian Gulf– Still the Swing Producer?

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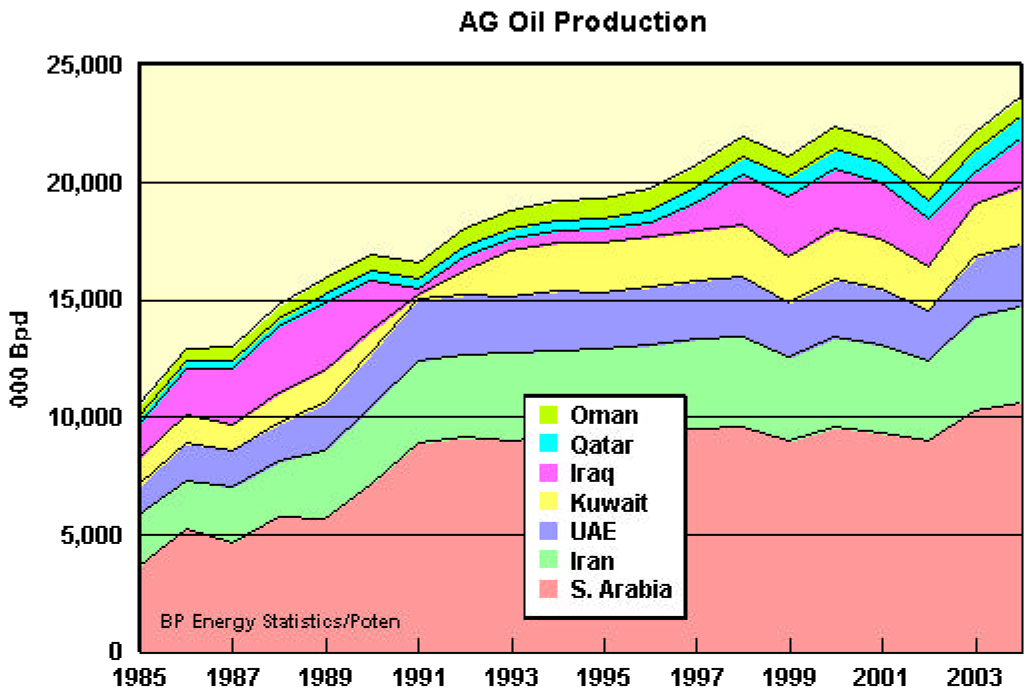
Saudi Arabia, Iran, and UAE had essentially constant production throughout the 1990s. Much of the gains in AG production during this decade came courtesy of Kuwait and Iraq after the Gulf War. From 2002 to 2004, the Arabian Gulf broke out of a flat production pattern with Saudi Arabia's production up by 1.5 million bpd, Iraq and Iran by nearly 700,000 bpd each, Kuwait by nearly 600,000 bpd, and UAE by over 500,000 bpd.



The Big Three

As China and the United States fight it out over who can consume more oil faster, the gap in supply will have to be filled primarily by the FSU, Africa, and the Middle East. FSU nations are still below the oil production level reached before the overthrow of communism and there is room for further expansion. Africa's production is expanding and Saudi Arabia is doing what its critics said couldn't be done: expanding its productive capacity. With world oil consumption growing by 3 million barrels per year, it remains to be seen if the FSU, Africa, and the Middle East can fill the gap. If so, then there will be a lot more oil cargoes to be carried. If not, then $100 per barrel crude will cool demand. Either way, supply must equal demand!