

Oil Market Report – February 2013

London's Oil Week (often referred to as IP Week) is a conspiracy theorist's dream; all the great and good of the oil world convene for one week in February for conferences, meetings, lectures, dinners and a great many drinks receptions. A "Davos" style oil event if you like, although probably a great deal more fun. Of course with so many oil decision makers present, the "Dark Arts" brigade have a field day with suggestions that it is at such events, that the powerful oil interests get together and agree how they can manipulate oil prices, before leaving London in mini submarines secretly moored off Blackfriars Bridge.

Well perhaps the first problem the conspiracy theorists have to deal with is the sheer number of different interests represented at IP Week. As well as the ubiquitous trading communities, there is also present a huge supporting cast of explorers, geologists, drillers, planners, refiners, shippers, inspectors, tax authorities, import authorities, port authorities, analysts, consultants, retailers, HSE bods, QA bods, Security bods, Government reps, writers, journalists, pipeliners, bargemen, railmen, truckmen, tankmen etc, etc, etc. The list of sectors represented goes on and on, and to have all these separate (and often opposing bodies) colluding on prices, seems for one, just a really difficult job to co-ordinate. We can only assume that there is a central "Dark Arts" Admin Department, that brings everything together and summarises all the actions agreed.

That department will have to be multi-national too, because if anything has changed at London Oil week over the last 20 years, it is the national make-up of attendees. Back In 1997 Portland, attended an Oil Week Lunch and on the table were a Yorkshireman (predictably telling everyone that this "must cost a pretty penny"), 2 Scots (saying pretty much the same thing), 2 City types with cut-glass accents, a Dutchman, a Swede and a mysterious lady from Cyprus. Wind the clock forward to a lunch in 2013 and we still had the obligatory Dutchman, but the rest of the table had been replaced by a Maltese, a Nigerian, 2 Kazakhs, a Russian and a Singaporean. Anecdotal evidence of course, but in the 80's and 90's, oil was dominated by British old-boy types, macho Texas oilmen and Arab Sheiks. Not so now. Yes the aforementioned stereotypes are still well represented, but they now share the platform with Russians (everywhere), a rapidly growing number of Chinese and many other representatives from a myriad of African, Asian and South American states. In fact, with so many national dress outfits on display, you would be forgiven for thinking that you had stumbled upon a London Fashion Week event – which rather amusingly shares dates with London Oil Week and uses many of the same venues.

As for the main talking point of the week, the continuing shale revolution in the USA dominated. What conspiracy theorists make of this development is anyone's guess, because quite frankly, the data coming out of the USA is astonishing. Shale Oil production has gone "through the roof" and whilst it may be some time before we feel the shock waves in the rest of the world, the energy landscape of the USA is in the process of being changed beyond recognition. In 2010, US oil production stood at 8 million barrels per day (8mbpd). By the start of 2013 and thanks to Shale Oil, that figure was up to 11.1mbpd. That's an incredible 3.1mbpd (or 39%) production increase in less than 3 years. Shale Oil Fields such as the Bakken Field in North Dakota have gone from virtually zero production to 700,000 bpd in the same period. Forecasts for Bakken alone, show that a further 1.1mbpd will be brought onstream in 2013, meaning that production at this one field will have outstripped Shell's entire worldwide production within the space of 3 years!

Amongst other things, this spells potential disaster for those countries that rely on selling crude to the Americans. Imported crude into the USA was down 2mbpd in 2012 and with more import reductions to come, the impact on both the world energy map and the worldwide geopolitical scene are immense. At the current rates, America will be self-sufficient in energy terms by 2020 and who knows what the world will look like, when the President of the USA wakes up one morning and suddenly finds that she no longer requires foreign oil (and more specifically, Middle-Eastern Oil). The whole American industry deserves a further monthly report and we will return to the subject later in the year with a progress update. In the meantime expect the "Peak Oilers" – who only 3 years ago were predicting with absolute certainty, the imminent end of world oil production – to be joining the "Dark Arters" in increasingly empty lecture rooms, whilst London's Oil Week continues to go from strength to strength.