



The oil crisis is prompting market reaction

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A few months ago we have already seen how the current oil crisis, with the barrel having hit the 58 US\$ level, and remaining steadily over the 50 US\$ level, has actually generated only a modest harm to the western economies. In fact, such economies do not seem to be in any way in a weak position, similar to what was experienced in 1973 and 1980, during the previous Oil Shocks.

However, when the energy cost is soaring, the impact on the economy is never negligible, it can damage, in the long run, the economic growth, and although the damages can be absorbed for sometime, history shows that the market puts in place corrective measures, to avoid the oil prices to remain at high levels for long.

The measures on the saving front are well known, they will be implemented more and more, also on the strength of the petroleum impact on the environment. But other measures seem to be ready to be put in place, and they are instead on the production front.

Contradicting the band of analysts who are talking about an "oil peak", the oil industry does not believe the production cannot be increased. There are concrete signs that the industry is moving in this direction, repeating itself, as this has already happened after the 2 previous oil shocks. Let's see some of these signs.

Sheikh Yamani, former Saudi Oil Minister, has stated that today's high prices will eventually curb oil consumption and drive down demand. He has seen it all since the 60's and he knows how the prices can swing up and down over the long term. But if the prices get too high, the economy will suffer and the oil producing countries will have to slash production. Mr. Yamani said the market fundamentals are not so tight, there is no shortage of oil, it's the price which has gone up because of the hedge funds, pension funds and other financial operators that put pressure on prices, but if market psychology changes, these specula-

tors could push prices down even faster than they have risen.

To change the psychology, the industry has to put in place new production policies. Mr. Yamani has criticized the Saudi Government for not having allowed western companies to invest in new exploration in Saudi Arabia. But in other countries, exploration is getting a boost.

EIA has stated that production in Russia is set to increase from the current 11 million barrels per day (Mbpd) to 15 by the year 2015. But Clarkson Research stated that this may be conservative, as they have reason to believe that Russia by then will reach 17 Mbpd.

Offshore exploration, which is more costly than onshore exploration, has had a long setback between the late 80's and the late 90's, mainly because in 1986 the barrel price had bottomed out at about US\$ 10, and there was no need to explore at expensive price. But after a mild return of interest at the beginning of the new century, interest is building up fast. One key indicator is the daily charter rate for an AHTS (anchor handling tug supply), the unit most needed to assist oil rigs in the offshore operations. After a peak at US\$

18,000 per day in 2001, the rate for such units slumped to less than US\$ 5,000 in 2004, to reach US\$ 24,000 by december last, and since then the rate has remained buoyant at around US\$ 23,500, with short peaks at 34,000 US\$/day. With the order book at less than 8% of the existing fleet, things look still promising for those who wish to invest.

Another indicator is the percentage of time utilization of the existing drilling rigs. In the USGulf, drilling rig utilization is almost 100%, and there is growing interest to expand exploration even in distant, hostile areas like the sea of Barents or the sea of Okhotsk (Russian continental shelf).

Like the French analyst Lasserre said, speaking to Al Jazeera "There is plenty of oil to be produced. Plenty of reserves. What we have now, is a bottleneck because of lack of investment in the recent past and the capacity is not enough. We now need more wells, more refineries, more pipelines. This has very little to do with oil peak, we only need better infrastructures, it is an investment issue".

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