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# **THE FUTURE OF OIL**

**A Presentation to the OTC Kickoff Breakfast**

**Houston Grampian Association**

**May 1, 2004**

FIGURE 1

**AVERAGE WELLHEAD PRICE OF CRUDE OIL IN THE UNITED STATES**

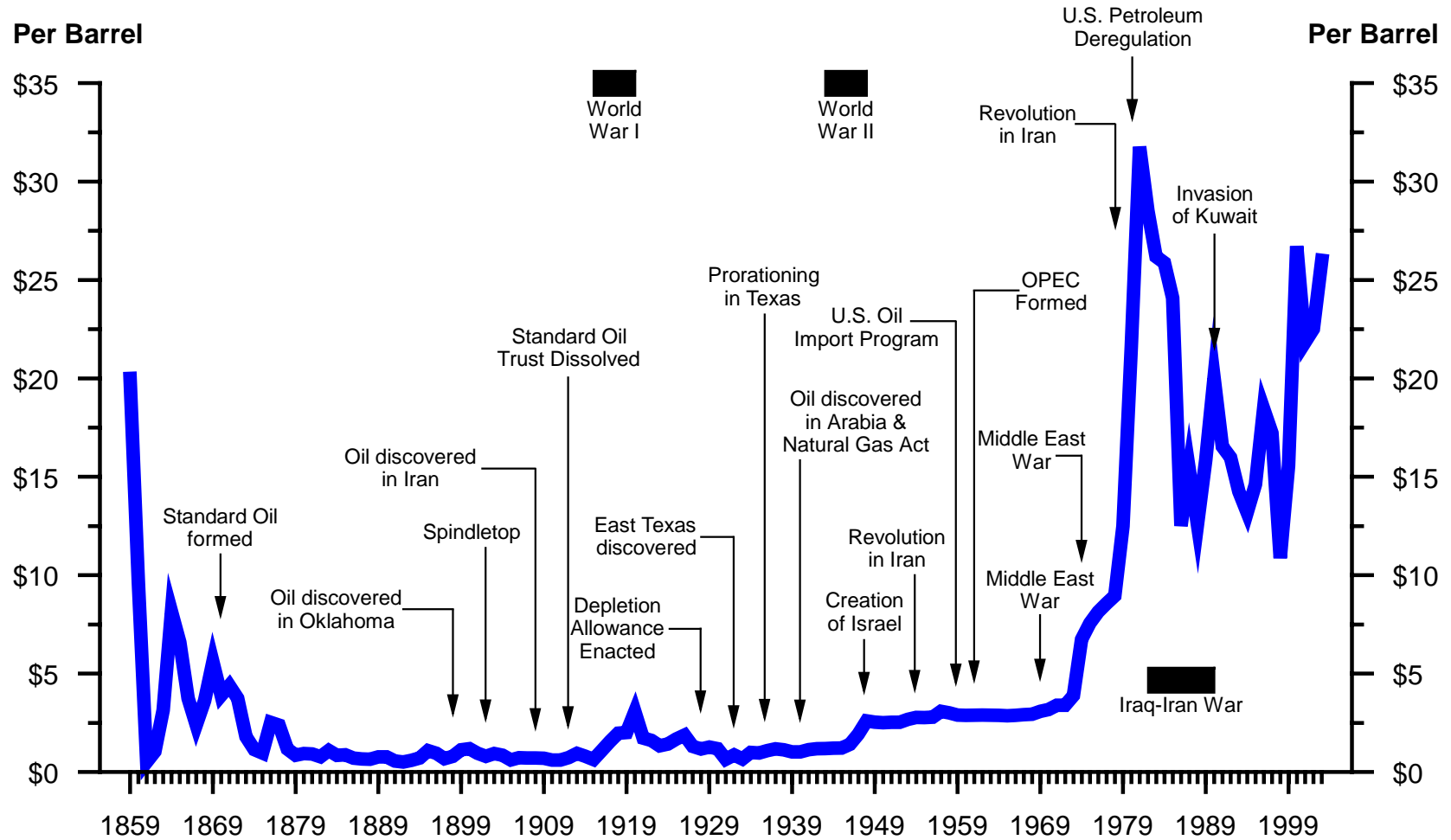


FIGURE 2  
**WORLD CRUDE OIL PRODUCTION**  
Million Barrels Per Day

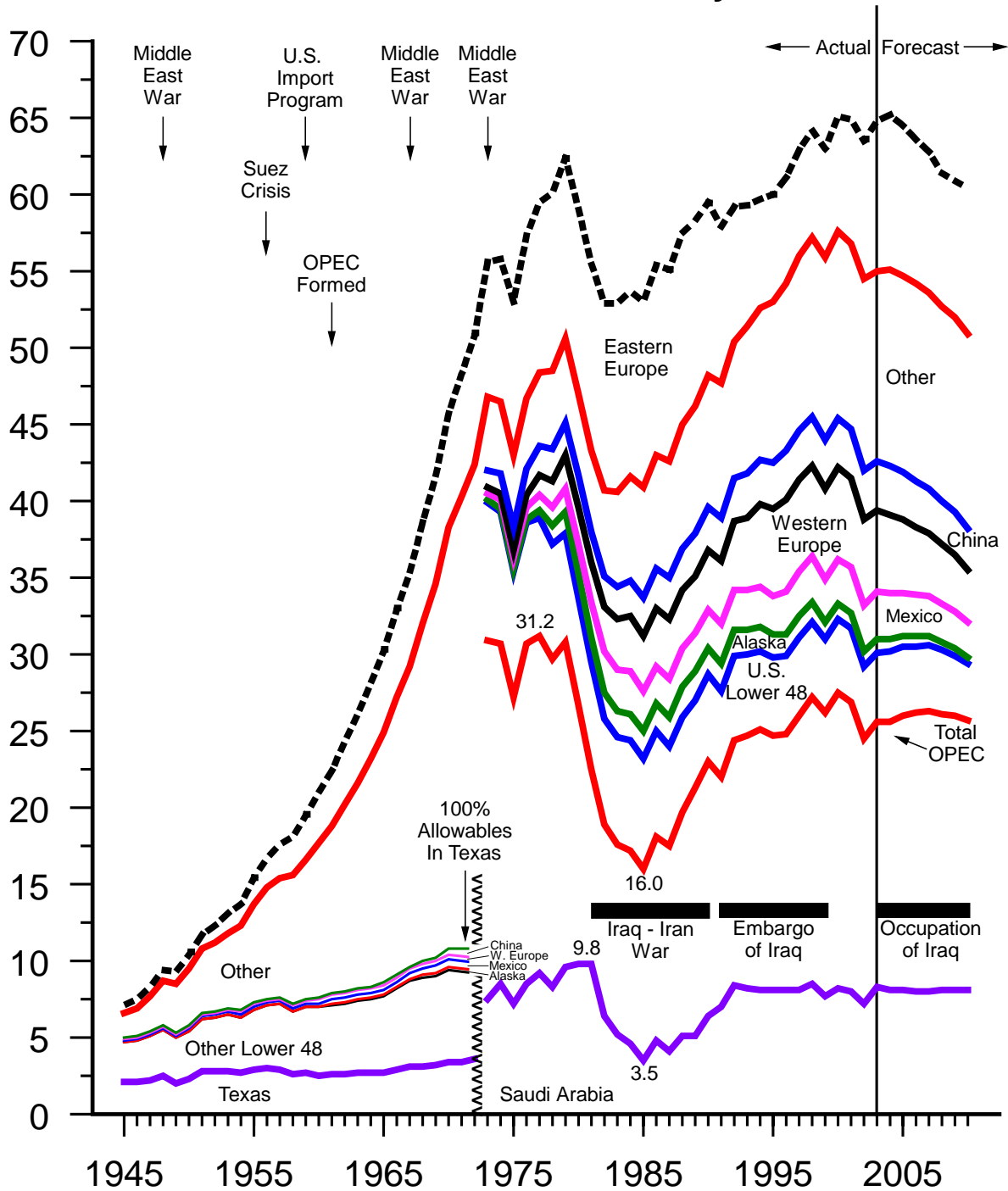


FIGURE 3  
**NON-OPEC CRUDE OIL PRODUCTION**  
Million Barrels Per Day

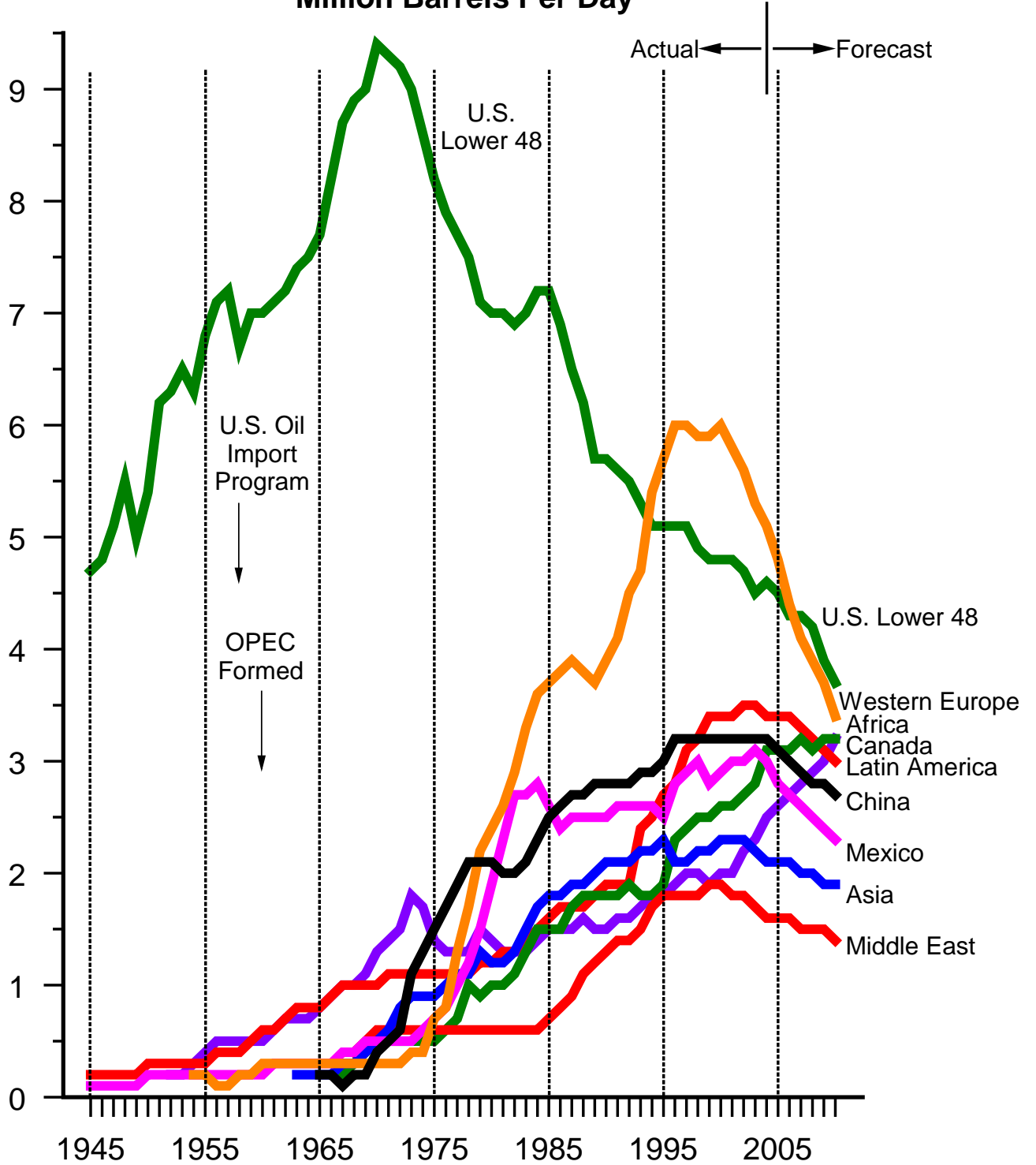
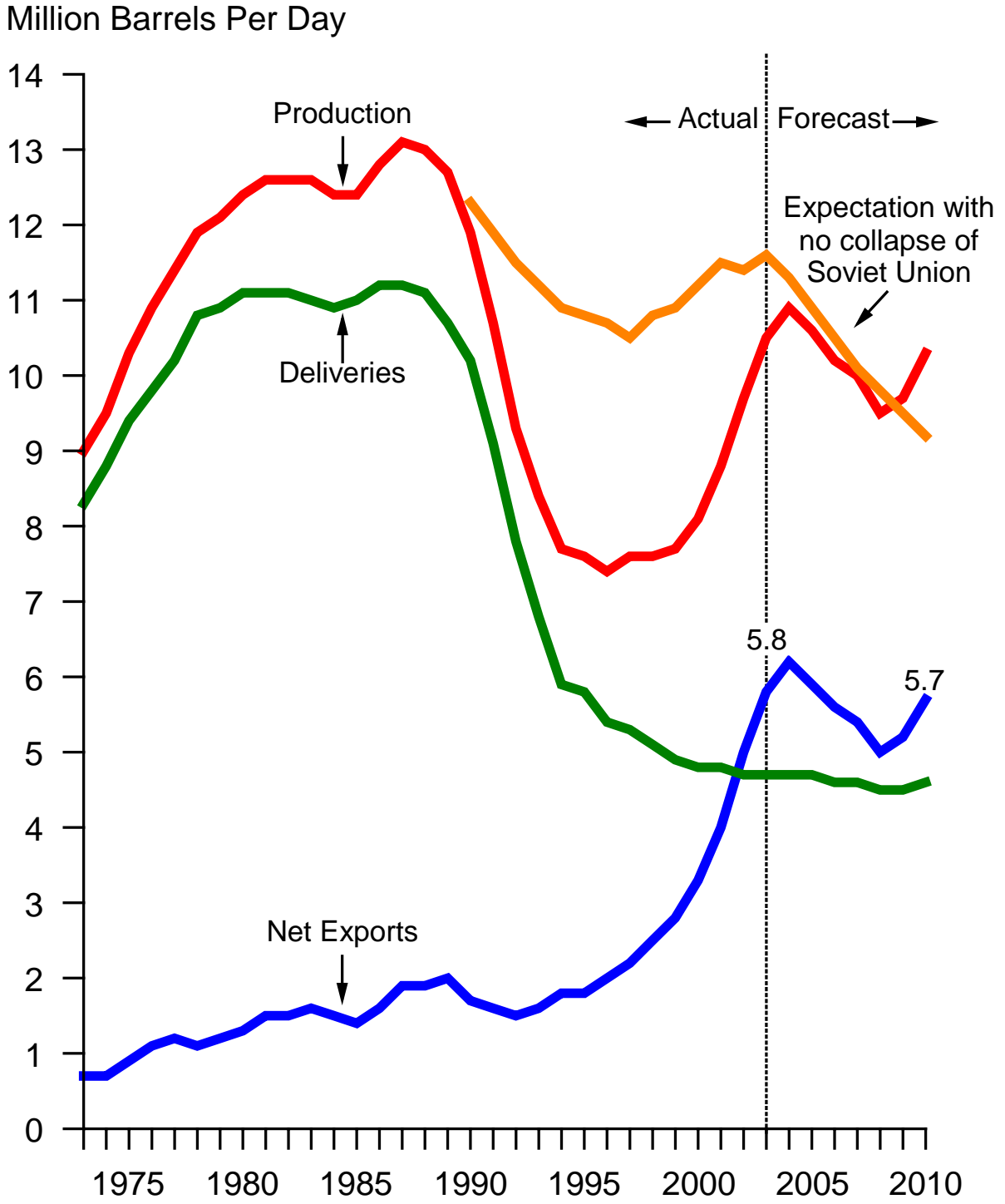


FIGURE 4  
EASTERN EUROPE PETROLEUM PRODUCTION,  
CONSUMPTION & EXPORTS



## THE FUTURE OF OIL

- Oil prices are unstable because of inelastic demand and low variable costs of production. **Figure 1**
  - Neither of the long periods of price stability was an accident.
    - 1878 – 1914 : Standard Oil dominance of refining
    - 1935 – 1972 : Prorating in Texas by the Railroad Commission
  - For most of OPEC's history increases in non-OPEC production been a major problem : OPEC crude = Demand less increase in other production **Figure 2**
  - Policy in Saudi Arabia has been the biggest factor since 1973.
    - 1973 – 1985 : Defend official prices
    - 1985 – 1992 : Increase production
    - 1993 – 1998 : 8 million barrels per day and hope for the best
- None of them was compatible with stable prices. Since March 1999 Saudi policy has been to vary production to support prices.
- Depletion is real and exploration is not a random process **Figure 3**
  - Eastern Europe is a special case because of the Soviet Union **Figure 4**
  - With declining non-OPEC production OPEC members can have both rising prices and increases in their production : OPEC crude = Demand plus decline in other production
  - The Future of oil is declining total production with steady increase in prices. The war in Iraq will result in prices being higher than they would have been with Iraq emerging as an oil power.