

## Summary

Excluding Eastern Europe, the peak year for non-OPEC crude oil production was 2000 with an average 30.16 million barrels per day (mmbd). Including Eastern Europe, it may have been 2004, but it will probably be 2005. Forecasts for total non-OPEC production, including condensate and gas liquids, compare with some of the history as follows:

<b>Non-OPEC Production</b>				
Million Barrels Per Day (mmbd)				
	Crude Oil	Conden- sate	Gas Liquids	Total
	1985	37.0	0.4	2.9
1999	36.8	1.4	4.2	42.4
2000	37.6	1.4	4.4	43.4
2001	38.2	1.6	4.3	44.1
2002	39.1	1.7	4.6	45.4
2003	39.6	1.8	4.6	46.0
2004	40.4	1.8	4.5	46.7
<u>Forecast</u>				
2005	40.4	1.8	4.5	46.7
2010	40.0	2.1	4.4	46.5
2015	36.0	2.0	4.0	42.0

So far the peak year for production of crude oil by the members of OPEC was 1979 with 30.76 mmbd. Ecuador left OPEC in 1993 and Gabon withdrew in 1996. Indonesia is likely to follow suit later this year or in 2006. As its membership declines, OPEC capacity to produce crude oil always seems to be 30 to 31 mmbd. That is forecast to continue per the following:

<b>OPEC Production Capacity</b>				
Million Barrels Per Day (mmbd)				
	2004	Forecast		
		2005	2010	2015
Iraq	1.7	2.0	1.8	2.0
Iran	3.6	3.6	3.6	3.2
Saudi Arabia	10.2	10.3	11.0	11.4
Kuwait	2.5	2.5	2.5	2.7
U.A. Emirates	2.5	2.5	2.6	2.6
Venezuela	2.7	2.8	2.9	3.0
Nigeria	2.2	2.2	2.3	1.8
Algeria	1.2	1.3	1.5	1.5
Libya	1.5	1.5	1.5	1.5
Qatar	0.9	1.0	1.1	1.0
Indonesia	1.1	1.0	-	-
Crude Oil	30.1	30.7	30.8	30.7
Condensate	1.4	1.5	1.9	2.4
Gas Liquids	3.0	3.2	4.4	5.0
Total	34.5	35.4	37.1	38.1

The model for control of oil prices remains the monthly allowables for production in Texas set by the Railroad Commission. OPEC has not yet adopted it, but it has gotten much closer. Increasing non-OPEC production has been a continual problem for OPEC just as it had been for the Commission. The formula

for maintaining stable prices has been:

$$\begin{aligned} \text{Change in Quotas} &= \text{Change in Demand} \\ &\quad \text{Less} \\ &\quad \text{Increase in non-OPEC} \end{aligned}$$

Declining non-OPEC production will be a major change in the oil business because the formula for maintaining stable prices becomes:

$$\begin{aligned} \text{Change in Quotas} &= \text{Change in Demand} \\ &\quad \text{Plus} \\ &\quad \text{Decrease in non-OPEC} \end{aligned}$$

Under the new circumstances, OPEC will still have to maintain excess capacity to be able to limit short term increases in prices. An excess of 4 mmbd is about right — enough to offset the loss of exports from one of the members or the partial loss of exports from two of them.

The demand for oil decreased between 1980 and 1985 because of increased use of other forms of energy — natural gas, coal, nuclear fission, etc. — as stationary fuels (i.e. for heating and generation of electricity). Higher prices for oil since 1999 have put in motion a major expansion of the natural gas industry, including gas-to-liquids (GTL). With it will come more production of condensate and gas liquids. By 2015 the cumulative effect on demand for oil as stationary fuel will be close to 7 mmbd. With increased demand for transportation and materials, forecast total demand for oil in 2015 is about equal to demand in 2005.

Oil demand was strong in 2004, as it was in 1996 and 2000 — the years of the two previous elections of the President of the United States. So far it has continued to grow in 2005 and the members of OPEC are producing “all out” to keep up with it. The 1996 US election was followed by a severe recession in Asia that began in late 1997. The 2000 US election was followed by a mild worldwide recession that began in late 2001. When the next recession develops, the obvious remedy is to reduce OPEC quotas, either before or at the meeting scheduled for September 19.

On June 28 President Bush told his nation:

“... After September the 11th, I made a commitment to the American people: This nation will not wait to be attacked again. We will defend our freedom. We will take the fight to the enemy. ... General John Vines put it well the other day. He said, ‘We either deal with terrorism and this extremism abroad, or we deal with it when it comes to us.’”

If pacifying Iraq is necessary to protect the US, then it makes no sense to rely on recruiting Iraqis to accomplish it. More US soldiers are clearly

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## Summary (Continued)

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needed to win and it will take conscription (i.e. the draft) to get them. Boots on the ground are also the only reliable method to end the nuclear weapons program in Iran. A naval blockade—to shut down Iran's exports of oil — is a way to start the process before the invasion itself. It also has the virtue that it does not cost much.

The track record is that President Bush means what he says unless the subject is Israel. The current gap between rhetoric and action can be forecast to close. He is likely to blockade Iran and propose a draft. October is a good bet because the summer will have ended and there is still enough time to train drafted men before the lack of personnel becomes acute.

Table 1 contains forecast prices by years to 2015. Table 2 is the record of prices in 2004. Table 3 contains actual prices through July and forecast prices for the remainder of 2005. The "spike" in October is compatible with either a reduction in OPEC quotas or the naval blockade of Iran. The forecast is that President Bush's proposals will not be accepted and the occupation of Iraq will drag on until it ends badly in 2013.