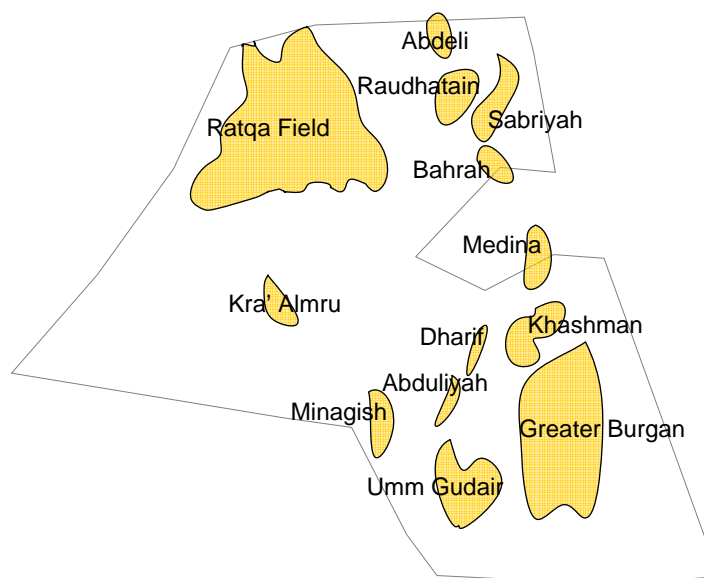


Kuwait Bucks Peak Oil

The combined effect of a weaker oil price environment and the overall decline in worldwide oil consumption has created challenges for those involved in upstream oil resource development. While it is held by some people that most conventional oil reserves have largely been discovered, unconventional sources are receiving increased attention. What has perhaps been overshadowed by terms like 'offshore' and 'syncrude' is the ability for crude oil producers to effectively and economically bring new supplies to market. As the concept of 'peak oil' still grips many market observers, one country that is playing a prominent role in allaying fears is Kuwait.

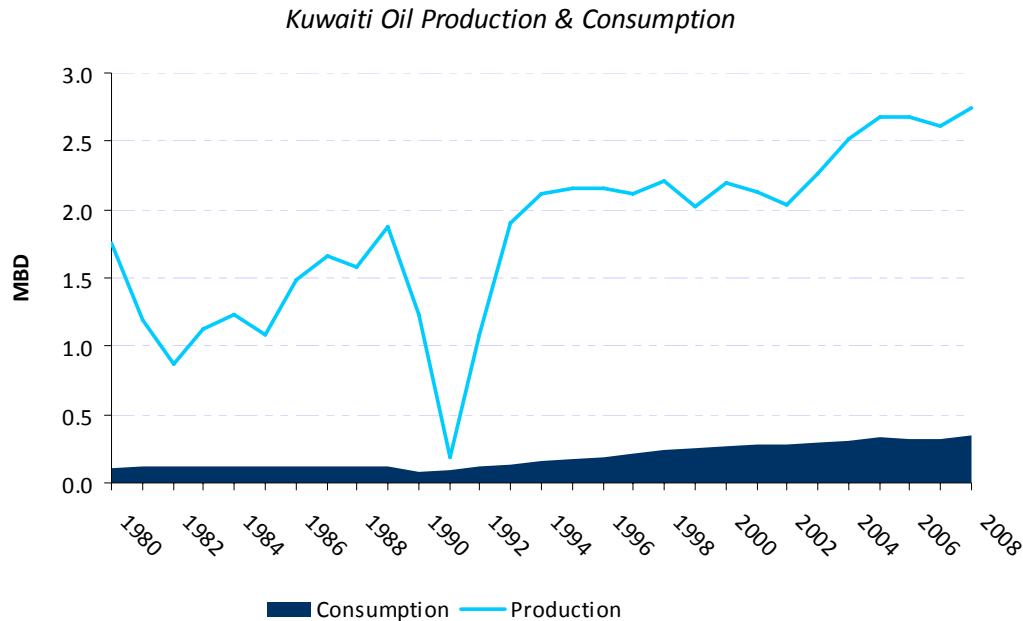
Situated atop an estimated 100 billion barrels of oil, Kuwait's proven reserves are the world's fifth largest, the distribution of which is shown in the map below. The country's Greater Burgan oil field, comprised of the Magwa, Burgan, and Ahmadi fields, is the world's second largest and also the major source of the Kuwait's crude oil production. Kuwait's oil fields also include the Raudhatain field and the Sabriya field, containing an estimated 5.1 billion barrels and 4.3 billion barrels, respectively, of medium-to-light crude oil.



Source: Kuwaiti Oil Ministry

Going Up!

Kuwaiti production recovered then rose dramatically following the 1991 Gulf war, as can be seen in the chart below, sustaining production in excess of 2.5 million barrels per day (mbd) for the past five years. Kuwait has recently re-committed itself to a significant increase in production rates during the coming years. These increases in production will likely come through a combination of enhanced recovery techniques and the development of new fields.



Source: US Energy Information Administration

While Kuwait has reevaluated some of its expansion plans following the economic downturn, the Kuwaiti Parliament recently approved a plan that will see the nation attempt to raise its production capacity from current levels of around 3.1 mbd to 3.5 mbd over the next five years. Additionally, Kuwait plans to increase total capacity to levels of between 4-5 mbd by in the years to follow. The increase in production capacity suggests that Kuwait may have a larger role in the spare capacity that OPEC holds above quotas levels and may be one of the key reactors in supplying the market should a supply crunch arise.

While it is difficult to become overly excited about the prospects of increased production capacity under decidedly weak demand conditions, it is important to remember just how quickly the market can change. Incremental increases in United States consumption might draw heavily on Arabian Gulf resources. China has increased its planned imports from Kuwait this year by nearly 50% to roughly a quarter of a million barrels per day. It is challenging for some private companies to maintain commitments to production under shifting price conditions. Long-term production planning by national oil companies, in contrast, will be important in meeting worldwide energy demands in the coming decades.

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