Persian Gulf spare capacity problems

Persian Gulf oil producers are struggling to expand their spare crude output capacity to meet surging global demand and their plans are blocked by manpower shortages, security factors and their ageing oil reservoirs, according to the World Bank.

Such factors have led to a sharp decline in the region's spare capacity and allied with international demand to keep oil prices at historically high levels, the bank said in a study on the Middle East and North Africa (Mena) region.

By August 2005, the idle output capacity of the six main Persian Gulf oil producers Saudi Arabia, Kuwait, UAE, Qatar, Iraq and Iran has plummeted to only 1.7 million barrels per day, its lowest size since 2003 and one of its smallest levels.

As a result, oil prices have sharply increased and are expected to remain high because of obstacles facing the region in its efforts to expand capacity, including lack of manpower and equipment, ageing reservoirs, the boycott against Iran and instability in war-battered Iraq, the bank said.

While some regional producers have resorted to water and gas injection to maximise the flow of their wells, such techniques could be damaging.

"The lack of spare oil capacity has largely been shaped by the fact that Opec countries, particularly Saudi Arabia, have boosted production to meet global demand. However, there are underlying concerns about future capabilities of the region to generate spare capacity due to limitations on manpower, equipment shortages and, more importantly for the long term, aging oil reservoirs," the report said.

According to the study, supply shortages have triggered a renewed effort at exploration in the region. It noted that Kuwait has recently discovered new oil and gas deposits which could boost the country's reserves by some 10 per cent.

Algeria made 13 discoveries in 2004 and at least six in 2005. The country plans to increase production capabilities from a current 1.4 million barrels per day (bpd) to two million bpd. The UAE has also announced plans to add 200,000 bpd, increasing total production capacity to 2.7 million bpd.

In an effort to develop greater upstream production to improve their spare capacity, most Mena producers are planning to exploit heavy crudes. Heavy crude oils are sold at a discount rate due to the higher costs of refining them before they become end-use products.

As spare capacity decreases, producers are more inclined to increase upstream production on heavy crudes despite the price discounts. It cited Saudi Arabia, which currently produces 11 million bpd of heavy crudes and is planning to raise capacity to 12.5 million bpd by 2009, by investing heavily in oil field developments. It noted that Kuwait has taken similar steps, referring to its 2005 pilot heavy crudes scheme.

The study said regional oil producers are also attempting to develop new technology and extraction techniques to extend the life of ageing reservoirs and boost production in existing wells.

In Oman, which has heavier crudes than its neighbours, the government has invested heavily in new techniques that will boost well production, such as steam and polymer injection, the study added.

The World Bank report stated: "Such investment is also key for Iran and Iraq. However, Iran's ability to import new oil production technology is limited by sanctions.

"Iraq's adoption of new technology is limited by the security environment. Currently, these countries are depending largely on the reinjection of gas and water into wells, and in Iraq, the reinjection of excess fuel oil.

"Although reinjection is a standard practice in many older wells, it can negatively affect the long-term health of a well if not managed properly."