

Your turn: OPEC countries ignore West's agenda

By Rolf Westgard, Deerwood

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American drivers wince as they pull up at the pump to pay \$3 and more for a gallon of gasoline.

Our leaders respond by asking OPEC to produce more oil. Congress passes a ludicrous bill making it illegal for oil-producing countries to manipulate prices by withholding "our oil" from the market.

Washington apparently didn't note the recent statement of Saudi oil executive Sadad Al-Husseini: "There has been a paradigm shift in the energy world whereby oil producers are no longer inclined to rapidly exhaust their resource for the sake of accelerating the misuse of a precious and finite commodity.

This sentiment prevails inside and outside of OPEC countries, but has yet to be appreciated among the major energy-consuming countries of the world."

Traditionally, Third World countries supplied the raw materials, and the developed countries added value.

In the case of oil, OPEC supplied the crude, and Western nations refined it into motor fuels and the petrochemical feedstocks for plastics, building materials, pesticides, synthetic rubber, etc.

But, as Matthew Simmons, author of "Twilight in the Desert," puts it, "Too many people are looking at OPEC through the rear view mirror. There's a resolve in their eyes never to go back to the days of cheap oil."

Oil-producing countries are starting to appreciate the longevity of that "precious resource" and the importance of gaining maximum value from each barrel.

Investments

Today, most of OPEC's investments are going into value-added refineries and petrochemicals, not increased oil production. Three fourths of the \$70 billion Saudi Arabia will invest in the next four years will be in downstream refineries and petrochemical facilities.

They intend to export more gasoline, ethylene and plastics, using their advantage in lower oil costs.

GE saw this and sold its plastics division to Saudi Basic Industries for \$11.5 billion. As Dave Cohen of the Association for the Study of Peak Oil and Gas puts it, "The kingdom's future is plastics."

The advantage of cheap feedstock means that new refineries will be built in the Middle East and Africa, not in the United States.

In Iran, rather than selling cheap natural gas to the West's industries or putting all of it into power plant boilers, Iran has a major program to produce petrochemicals for the world's, and its own, chemical industry. Iran's natural gas cost of 20 cents per MMBtu is the lowest in the world. Its "projects could force projects in consuming countries out of business." (Oil and Gas Journal, 3/26). Iran is aggressively partnering with foreign companies for construction of its petrochemical plants, including Sweden, Austria, Germany, Italy and South Africa.

The ethanol factor

No problem, say our leaders, we can make transportation fuel from biomass.

But to make ethanol from corn grain, which is how U.S. ethanol will be made for the next several years at least, corn is first grown to develop hybrid seeds. Next season they are planted, harvested, delivered, stored and preprocessed to remove dirt.

Dry-mill ethanol is milled, liquefied, heated, saccharified, fermented, evaporated, centrifuged, distilled, scrubbed, dried, stored and transported to customers. The net energy gain from this process is small, and the potential damage to our soils is serious.

As top cellulosic ethanol, J.D. Johnson points out in the Journal of Soil and Water Conservation, "intensive agriculture has already removed 20 to 50 percent of the original soil carbon, and some areas have lost 70 percent.

"To maintain soil carbon levels, no crop residues (cellulose) at all should be harvested under many tillage systems or on highly erodible lands."

Governments and national oil companies in the producing countries now control more than 80 percent of the world's oil reserves.

So when our leaders ask or threaten OPEC producers to export more crude oil, OPEC has an obvious answer — why should we?

This is the opinion of Rolf Westgard, a portfolio manager who focuses on investments in the oil and gas industry. He is a member of the American Association of Petroleum Geologists and a regular speaker to civic groups on peak oil and alternate energy.

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