

## The price and production of oil : 1980 & 2008.

April 2010, mailing n°9.3, Dr Thomas Chaize  
[www.dani2989.com](http://www.dani2989.com)

In 2008, the average price of an oil's barrel was close to \$ 100. The first possibility is to consider the rising price of a barrel of oil as an isolated accident, the result of speculation and stop reading these lines. Second possibility is to consider the rising price of oil as an exceptional event promises a major structural change ([the peak of world oil production](#)) and thus do not submit passively to the next great wave of rising price of a barrel of oil. Choose between the first and the second solution is

### I. Price for oil's barrel at \$ 100.

[Rising price of oil in 2008 is a rare phenomenon; as such it deserves much attention.](#) Price of a barrel of oil reached an annual average twice the level of \$ 100 (adjusted for inflation) in the 20th century, in 1980 and 2008.

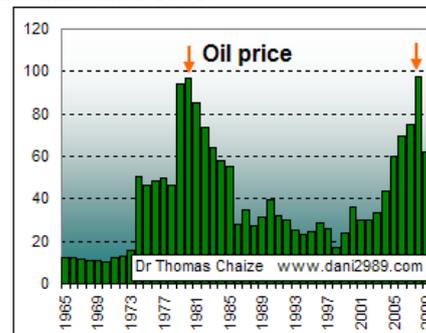
In 1980, Iran / Iraq War brutally deprives the world of 10% of world oil supply and disrupting oil transport by tanker in the Strait of Hormuz, which handles three quarters of world oil. In 2008 it is different, global demand for oil exceeds supply. Yet it is at a record 86.6 million barrels of oil per day in July 2008. Despite a price of \$ 147 per barrel of oil (1 barrel of oil = 0.1364 ton, 159 liters or 42 U.S. gallons), oil supply remains insufficient.

### II. Price of one barrel of oil from 1965 to 2009.

After the rising price of oil in 1980, demand, production and price of oil are falling for several years. The rise in 2008, similar in terms of rising prices, does not seem to have the same impact about demand, production and the price of a barrel of oil. For optimists, it is the result of a great economic policy stimulus and severity of quotas from OPEC countries. For others, increased tensions between supply and demand for oil keeps oil prices back down to the lowest. World is even more dependent on oil today than 30 years ago. In parallel, new oil resources are becoming increasingly inaccessible and expensive to develop for exploration companies and oil's multinationals. Price of one barrel of oil can not fall over an extended period because it destroys too quickly the

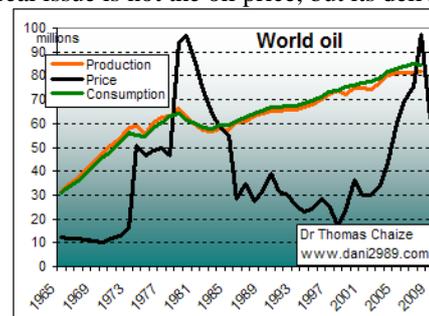
more psychoanalysis than economy, my work here is not to explain why these unconscious choices but to define the nature of these changes. Whether particular, investor or industrial, the oil peak of world production is about us. Many decisions are taken for itself, its investments or business. To work properly it must be satisfied 110%, otherwise lack of certainty, we do not take logical decisions vis-à-vis this important issue and it becomes a spectator.

In 1980, a sudden drop in supply is cause of the rising price of oil. In 2008, production is at its peak thanks to record prices of oil, but demand remains stronger than supply. Despite seven years of rising prices, oil supply is not enough demand, it is the first time since 1861.



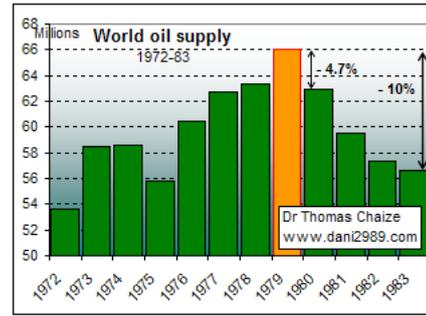
most storytellers (tar sands, biofuels, deep offshore, etc.).

At the height of economic crisis, oil investments in China have accelerated. China has invested tens of billions of dollars to buy billions of barrels of oil resources in each corner of world. Objective of China is not to control prices but security of supply. The real issue is not the oil price, but its delivery.

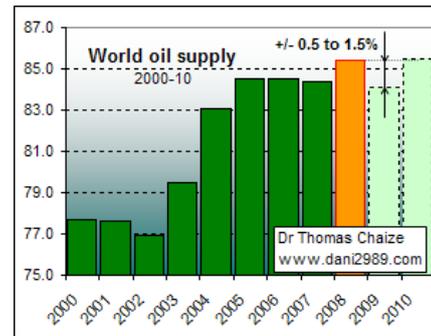


### III. Price of barrel of oil in 1980 and in 2008.

It is interesting to compare the effects of rising price of oil in 1980 and 2008 to better understand the evolution of prices and production of oil. After the rising price of oil in 1980, oil demand has fallen sharply in subsequent years. Demand for oil has fallen from 4.7% the first year and ultimately 10% over four years. The rising price of oil has caused a sharp drop in demand and production of oil following years (1980-83).

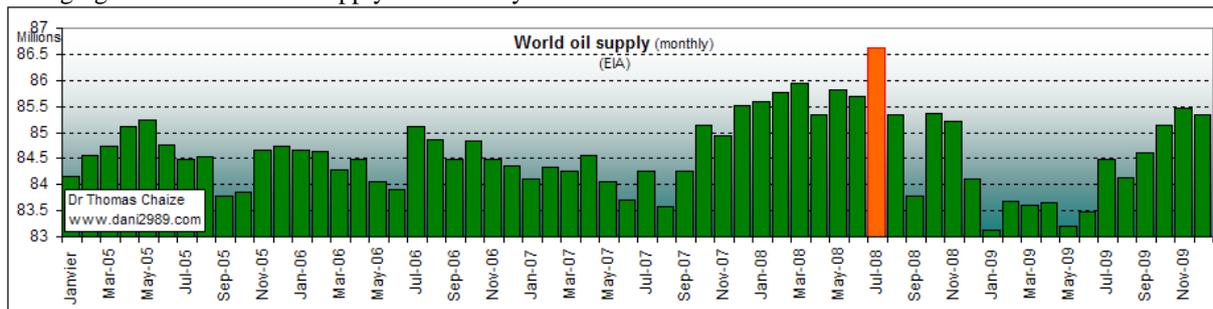


Rising prices of oil in 2008 led to a decline in demand of between 0.5% and 1.5% in 2009, down less important compared to 1980. Oil demand in 2010 is difficult to estimate. However, it is likely that it is above the level of 2009 if the economy keeps the same direction. This situation is very different from that of 1980. Demand has fallen somewhat and over a much shorter, about 1% over 1 year.



Looking at the global supply of oil (all liquids combined) per month, you can see the same trend is emerging. The level of supply is already in

November and December 2009 over 2005, 2006, 2007 and it is approaching the record of 2008.



In 1980, the supply of oil is reduced because of war (cyclical and exogenous causes: war). In 2008, oil consumption exceeds production (endogenous and structural causes: insufficient production). These increases have opposed origins and of course consequences are different.

oil, so it must begin its withdrawal. The transition from oil to other energy sources will have consequences as important as appearance of train at the 19th or car beginning 20th.

During and after the crisis, press and TV were apocalyptic about the decline in oil demand. Finally, decline will be in the range of (+/-) 1% in 2009, it is small compared to the production decline of 10% over 4 years in 1980 but also relative to the scale of economic crisis of 2008. The world is now so dependent on oil that even during a major economic crisis, demand for oil has remained at a high level. World has never been so dependent on

Two options available to us: wait or anticipate and adapt as does China. Thus we can reduce the impact or even benefit. This transition is inevitable, but predictable, then organizing you.

**Dr Thomas Chaize**

[www.dani2989.com](http://www.dani2989.com)

You can subscribe to mailing free and receive free monthly new analysis of Dr. Thomas Chaize, [click here](#).