DRIVERS OF NON-OPEC SUPPLY

USAEE, MEXICO CITY
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FEARS ABOUT SUPPLY

- INVESTMENT/DRILLING NOT KEEPING UP WITH OIL PRICES
- US NATURAL GAS: PRICE INCREASE OF 150% DOESN’T LEAD TO SUPPLY INCREASE (OR DOES IT?)
- US OIL RIGS STILL DEPRESSED
- GLOBAL OIL RIGS SLIGHTLY SO
- NON-OPEC SUPPLY ANEMIC?
US GAS PRICE AND RIGS

![Graph showing US gas price and rigs over time](graph.png)
NON-NAM OIL RIGS
INCREMENTAL NON-OPEC SUPPLY
MEASUREMENT PROBLEMS

- **DISCOVERY SIZE LAG**
  - CAMPBELL 1997: DISCOVERIES BELOW CONSUMPTION FROM 1980
  - CAMPBELL 2003: DISCOVERIES BELOW CONSUMPTION FROM 1990
  - IHS ENERGY 2003: NOT

- **NOT ALL RIGS EQUAL**
  - DEEPWATER, HORIZONTAL, ETC.

- **NOT ALL DOLLARS EQUAL**
  - MERGERS MEAN MORE EFFICIENCY?
  - $1 IN CASPIAN > $1 IN TEXAS
FRS RECYCLE RATIO
FOCUS ON REVENUES

- PRICE IS NOT REVENUE
  - TAXES & ROYALTIES
- REVENUE A BETTER PREDICTOR OF INVESTMENT OUTSIDE HIGH-COST AREAS
  - WHAT ARE HIGH-COST AREAS?
- SOME INERTIA
RELATIVE VOLATILITY, PRICE AND REVENUE
PRICE AND N. AMERICAN E&P

[Diagram showing price and upstream expenditures over time]
PRICE AND OTHER E&P
CONCLUSIONS

- WATCH REVENUES, NOT PRICE
  - REVENUES = F(PRICE)
- NO SIGN OF CHANGE IN INVESTMENT
- LAG TIME MEANS HIGH PRICES
  2002/2003 WILL HAVE MORE IMPACT SOON
- NEXT PRICE COLLAPSE WILL BE ???