

U.S. seeks oil supply cushion as Iran sanctions loom

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The United States is building ties with Ghana and other oil producing countries in an effort to ensure a steady supply of crude to global markets as the West ratchets up the threat of increased sanctions against Iranian exports.

According to a State Department official, the groundwork is being laid with exporters including Ghana, Angola, and Iraq, where the oil industry is recovering from war and years of neglect, to boost global spare oil capacity in case of outages that can lead to price spikes that threaten the fragile economy.

As Iran, the world's fifth biggest oil exporter, faces calls for fresh sanctions based on concerns it is developing a nuclear bomb, the United States is working with countries beyond its old ally Saudi Arabia to ensure spare capacity in global oil markets.

"It's no longer just going to one or two places and saying, 'Hey can you pump an additional million barrels per day and we will all be fine,' it's become a much more complicated market to be able to work with," Carlos Pascual, the State Department's special envoy and coordinator for international affairs told a meeting at the Council on Foreign Relations on Tuesday night.

Pascual was in charge of creating the State Department's new Bureau of Energy Resources, which takes the lead on issues from market stabilization to lowering environmental risks of energy production.

Tighter sanctions on Iran could result in its output falling by about a quarter to below 3 million bpd by 2016, the International Energy Agency, the West's energy watchdog, said this week.

Some groups in Washington also hope to make U.S. sanctions on Iran smarter by pushing China and other countries in the East to buy more of Iran's oil. The idea is China has a better bargaining position than Europe because its state oil companies buy crude as a monolithic block and can force Iran to sell its crude for a lower price and deprive it of billions of dollars in petroleum revenues.

Saudi Arabia remains the swing producer of the Organization of the Petroleum Exporting Countries, a major factor in the world's spare capacity cushion, now estimated about 2.5 million bpd to 5 million bpd.

FABRIC OF A STABLE MARKET

But as the kingdom's domestic demand for crude rises and as the world's thirst for oil grows to nearly 90 million bpd, new sources of oil are also coming into focus for Washington.

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Angola's oil production, which is currently about 1.7 million bpd is expected to rise to nearly 2 million bpd by 2013 and keep rising.

Iraq's output has risen about 500,000 bpd this year to about 2.95 million bpd, the highest level in two decades, and could easily rise by the same amount next year, Pascual said.

Ghana joined the club of oil producers in late 2010 when the offshore Jubilee field operated by Tullow Oil started up producing light sweet crude. The company is hoping to soon hit a target of 120,000 barrels per day from the field, while Ghana's total oil reserves are estimated to be at least 1.25 billion barrels.

Production in offshore East Africa could also take off in coming years, Pascual added.

"What seemed in the past to people as maybe not that significant, 200,000 barrels here and 400,000 barrels there, is part of what actually makes up that whole texture, that whole fabric, of what can become a stable market," Pascual said.

Rising oil output in the Western Hemisphere also has big potential to add to the global supply cushion. Offshore drilling in Brazil could make it Latin America's biggest oil producer in coming years, while Canadian and U.S. oil production is also rising from unconventional sources such as shale oil and oil sands.

"The problem is those new supplies are not elastic," Pascual said. "You can't turn them on and off tomorrow, and so if you have an immediate problem or spike that takes those supplies off the market, then the speculation starts, then the price spikes start."