

# No capacity for war

How geopolitical issues affect oil prices **Interviewed by Dale W. Hlaves**

Israel and Palestine exchange bombing raids amid escalating Middle East tensions, and gas pump prices shoot to more than \$3 a gallon.

“Middle East instability is nothing new. What’s new is the capacity margin — or lack of it,” says John Barnes, chairman and CEO of B&R Energy in Dallas. “Ten to 15 years ago, spare capacity ran between 8 million and 10 million barrels. Now it’s gone.”

*Smart Business* talked to Barnes about political maneuverings, peak oil supplies and soaring oil prices.

## If the Middle East has long been this unstable, why are prices just now rising?

The issue is spare capacity. With both demand and supply at some 85 million barrels a day — except for some 1.5 million barrels that Saudi Arabia has but no one can refine and no one wants — spare capacity is nonexistent.

The real world has no extra supply of crude; no spare capacity exists. Any interruption in oil flow creates a negative imbalance. How much does that affect the price premium? Who knows? A little bit, probably. But the imbalance still stares us in the face.

A lot of things, of course, can disrupt supply. Nigerian workers strike. An oil worker is kidnapped. Venezuelan President Hugo Chavez fires everyone who knows what they were doing at PetroVen, puts himself in charge, and production continues to slide. Rather than invest the money from production, he pays off his supporters — a game he can’t keep up. You also have the Iraqi cleanup. And Syria’s reserve is dwindling.

All world events interplay. Something is always affecting supply, and that’s no problem as long as there’s extra supply.



**John Barnes**  
Chairman and CEO  
B&R Energy

But the instant the excess goes — and that’s where we are now — you have what economists call price rationing: prices rising to eliminate marginal users in an effort to rebalance supply and demand.

## Is there any chance that undiscovered oil fields can significantly increase supply?

It’s been 10 years since we found as much oil in a given year as we used. Some big Saudi oilfields are starting to decline in production, and the great bulk of the world’s oil-producing areas already are at capacity. Russia, actually, is the second-biggest producer, contending seriously with Saudi Arabia to be the leading exporter. Russia already supplies much of Europe’s natural gas.

Russia probably has four or five times as many drilling rigs as it did just a couple of years ago, but it’s not increasing production. Basically, it has to drill much more to maintain its current production rates, which is what we all have to do.

## What is Iran’s position in the Israel/Palestinian conflict?

Some of the people of Iran are enraged at Iran’s spending money on Hezbollah that it needed to spend at home. Iran needs to sell its oil to keep its population from revolting. Iran is still a big player, but its government has failed to invest money in foreign technology that could help find more oil. As in many other places, Iran’s biggest enemy is its own political unreliability.

## So where does the gas-using public go from here?

Ultimately, people will have to face reality. We’ll have to develop the Arctic National Wildlife Refuge because we need the oil — with a problematic four- or five-year gap between the start of development and production of oil.

We’ll have to have more offshore drilling. People aren’t going to want to walk five miles to work every day. In due time, they’ll start approving nuclear power plants to satisfy America’s impatient appetite for energy.

Soon enough, we’ll have to deal with the impact of waiting too long to take the right steps. As we speak, California is experiencing energy loads it didn’t expect to show up for another five years. If the state had planned four or five years in advance, it could have dealt with the problem.

The rate of change is accelerating, and it’s affecting us on the energy and economic fronts.

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