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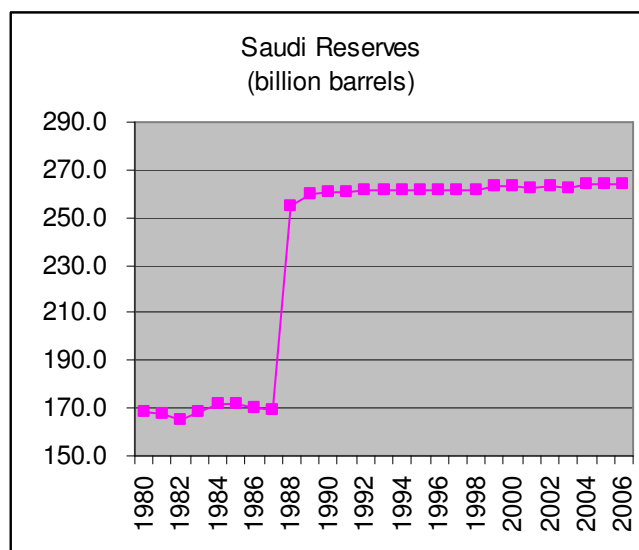
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Arab States: Oil Reserves and Transparency

Giacomo Luciani

Do Arab governments deliberately announce misleading information about petroleum reserves, for political or economic reasons? One can only estimate, not truly measure, oil reserves in the ground, and reserve estimates can vary depending on the criteria adopted. A very conservative approach—one that is used by the U.S. Securities and Exchange Commission—includes only reserves that almost certainly exist and can be produced with current technology. The Society of Petroleum Engineers (SPE), on the other hand, advocates a probabilistic approach, classifying reserves by the probability that they are extractable: a 90 percent probability, a 50 percent probability, or a 10 percent probability.

Oil-producing countries publish estimates of their reserves without clearly stating the criteria used. This does not mean necessarily that such estimates are unrealistic, but simply that we do not know exactly what they mean and how they compare with other world reserve estimates. Some estimates are clearly conservative. For example, Saudi Arabia has a preference for downplaying its reserves for tactical reasons, such as containing outside pressure to increase production beyond the level that the Kingdom is comfortable with. It has, therefore, followed a practice of announcing, year after year, reserve increments that almost exactly equal the amount of oil that was extracted during the year, leaving



reserves unchanged (except for a quantum re-evaluation announced in 1989—see graph, data from BP Statistical Review of World Energy 2007). This is a transparent fabrication, and is meant as such. The message, nevertheless, is clear.

In other cases, countries sometimes announce sudden increases in their reserve estimates, arousing suspicions as to whether such estimates are truly justified. Some countries have an interest in inflating their reserves in order to obtain larger production quotas from the Organization of Petroleum Exporting Countries (OPEC). OPEC quotas, however, have lost most of their importance in recent years, as some members are not able to fill their quotas and others exceed them. In any case, OPEC quotas are not necessarily proportional to reserves. Doubts about the true extent of reserves arise not only in international circles but also in domestic politics. In Kuwait, for example, the parliament has repeatedly asked in vain to be briefed about reserves, adding to suspicions about announced estimates.

One possible solution to the credibility problem would be for producing countries to have their reserves independently certified. Independent estimates do exist. Information Handling Services Energy Group (formerly Petroconsultant) maintains an extensive database and arrives at its own estimates of reserves, sometimes quite different from those published by the producing countries.

Ultimately, however, independent estimates are unlikely to be a panacea. Estimating reserves is an art, not a science, and it is based on information that the producer alone possesses. Any third party called to certify reserves inevitably depends on information received from the producer, and its experience of the field and operating conditions locally will, by definition, be inferior to that of the producer. Hence, any estimate provided by an independent party could be inferior to that offered by the producer.

In the end, the importance of reserve numbers is probably exaggerated. They are useful as a broad measure of the potential and significance of each country in the international oil arena, but the pecking order is unlikely to change much.

Do reserve estimates influence a country's production policy? It is at best a tenuous link; producing countries consider changing their economic policies, such as opening doors to international investment and diversifying their economies more aggressively, if their production starts declining. Production levels will be influenced more by the perceived convenience of producing more today and less in the future than by measures of reserves. High oil prices should justify increases in the estimates of reserves (marginal oil that was not recoverable under low prices becomes so), and at the same time they discourage higher production, either through deliberate shut in, or, more likely, through the adoption of policies that result in lower production. The only matter that can be predicted easily is that disputes and debates about reserve estimates will continue until the last drop of oil is extracted.

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