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Oil-Rich Nations Use More Energy, Cutting Exports

By [CLIFFORD KRAUSS](#)

The economies of many big oil-exporting countries are growing so fast that their need for energy within their borders is crimping how much they can sell abroad, adding new strains to the global oil market.

Experts say the sharp growth, if it continues, means several of the world's most important suppliers may need to start importing oil within a decade to power all the new cars, houses and businesses they are buying and creating with their oil wealth.

Indonesia has already made this flip. By some projections, the same thing could happen within five years to Mexico, the No. 2 source of foreign oil for the United States, and soon after that to Iran, the world's fourth-largest exporter. In some cases, the governments of these countries subsidize gasoline heavily for their citizens, selling it for as little as 7 cents a gallon, a practice that industry experts say fosters wasteful habits.

"It is a very serious threat that a lot of major exporters that we count on today for international oil supply are no longer going to be net exporters any more in 5 to 10 years," said Amy Myers Jaffe, an oil analyst at [Rice University](#).

Rising internal demand may offset 40 percent of the increase in Saudi oil production between now and 2010, while more than half the projected decline in Iranian exports will be caused by internal consumption, said a recent report by CIBC World Markets.

The report said "soaring internal rates of oil consumption" in Russia, in Mexico and in member states of the Organization of the Petroleum Exporting Countries would reduce crude exports as much as 2.5 million barrels a day by the end of the decade.

That is about 3 percent of global oil demand. It may not sound high, but experts say demand for oil is so inflexible, and the world has so little spare production capacity, that even small shortfalls can raise prices. In 2002, when a labor strike in Venezuela took 3 percent of global production off line, oil prices spiked 26 percent within weeks.

The trend, though increasingly important, does not necessarily mean there will be oil shortages. More likely, experts say, it will mean big market shifts, with the number of exporting countries shrinking and unconventional sources like Canadian tar sands becoming more important, especially for the United States. And there is likely to be more pressure to open areas now closed to oil production.

Greater political stability and increased drilling in some important oil states, notably Iraq, Iran and Venezuela, could help offset the rising demand from other oil exporters.

“Ten years from now, world capacity to produce oil could be 20 percent higher than today,” said Daniel Yergin, chairman of Cambridge Energy Research Associates. “But a lot will depend on how the geopolitics work out.”

Growth in demand among oil exporters is one aspect of a larger issue, breakneck economic growth in parts of the developing world. China and India are expected to account for much of the increase in global oil demand in the next 20 years. But Fatih Birol, chief economist at the International Energy Agency in Paris, rated consumption growth among oil exporters as the second-biggest threat to meeting the world’s oil needs.

“It’s a big problem, and growing all the time,” Mr. Birol said.

Internal oil consumption by the five biggest oil exporters — Saudi Arabia, Russia, Norway, Iran and the United Arab Emirates — grew 5.9 percent in 2006 over 2005, according to government data. Exports declined more than 3 percent. By contrast, oil demand is essentially flat in the United States.

CIBC’s demand projections suggest that for many oil countries, including Saudi Arabia, Kuwait and Libya, internal oil demand will double in a decade.

Factors contributing to the trend include increased industrialization, higher government spending and increasing personal consumption. According to a [World Bank](#) report, economic growth in the Middle East and North Africa has doubled since the 1990s, and Russia has done even better.

Oil money is giving many countries the means to invest in their own economic development, and robust global growth is creating markets for their goods — including plastics, chemicals and fuels refined from oil.

To be sure, many oil-exporting states have a long way to go before they achieve Western living standards. The global oil market is still dominated by traditional consumers, particularly the United States, which uses nearly a quarter of the world’s oil.

Perhaps surprisingly, though, some producing countries have surpassed the United States in oil consumption per person. They include Bahrain, Kuwait, Qatar and the United Arab Emirates.

Particularly in oil-producing countries with large populations, like Indonesia, Russia and Mexico, a rapid rise in car ownership is a big factor driving consumption increases. Russian farmers are replacing horses and carts with gas-guzzling four-wheel-drive vehicles, while urban consumers are snapping up BMWs even before they learn to drive.

“Most of the producing countries have young populations entering the driving age and can more readily afford to buy cars because the price of fuel is low,” said Charles McPherson, an oil expert at the [International Monetary Fund](#). “It’s certainly pulling product off the international markets.”

Some oil-exporting countries use price controls and subsidies to ensure cheap fuel for their people. These programs are politically popular, even though experts say they contribute to wasteful energy use.

Kuwaitis, for instance, often leave their air conditioning — powered by electricity generated from natural gas or oil-derived fuels — running for weeks while on vacation, said an official at the World Bank. Sportsmen of

the United Arab Emirates ski indoors on manufactured snow and play golf on lush courses that require desalinated water produced with fuels refined from oil.

Saudis, Iranians and Iraqis pay 30 to 50 cents a gallon for gasoline. Venezuelans pay 7 cents, and demand is projected to rise as much as 10 percent this year. Auto sales have tripled in four years. "Where cheap oil is viewed as a national human right, you've virtually got runaway demand," said Chris B. Newton, an executive of the Indonesian Petroleum Association in Jakarta.

Indonesia flipped from exporting oil to importing it three years ago because of sagging production in depleted fields and rising demand. Iran, Algeria and Malaysia are vulnerable in the next decade. Most oil experts view Mexico as the next country likely to flip, in as little as five years.

Rapidly falling production in Mexico's aging Cantarell oil field is part of the problem. Also significant, though, is the rising number of cars on Mexican roads. They have nearly doubled, to almost 16 million, in the last decade, and gasoline consumption is growing 5 percent a year.

In Mexico City the other day, a bricklayer named Jaime Guerrero arrived at a local Chevrolet dealership. His extended family cried "bravo!" as he signed the papers for his first car.

"To have a new car in my name is a dream transformed into reality," said Mr. Guerrero, 26. He and his family piled in and weaved through the chaotic traffic of the capital, hunting for a priest to douse the car with holy water.

"I don't worry about the climate or shortages of oil in the world," Mr. Guerrero said. "I just worry if gasoline prices go up."

Reporting was contributed by Wayne Arnold from Singapore; Nazila Fathi from Tehran; Jens Erik Gould from Caracas, Venezuela; Andrew E. Kramer from Moscow; Elisabeth Malkin from Mexico City; and Jad Mouawad from Riyadh, Saudi Arabia.

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