We Need Oil They've Got and More

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Doubts Raised on Saudi Vow for More Oil
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WASHINGTON, Oct. 26 - Last spring, the White House publicly embraced plans by Saudi Arabia to increase its oil production capacity significantly. But privately, some officials and others advising the government are skeptical about some of those Saudi forecasts.

The United States relies on a few producers to maintain enough spare capacity to keep prices and markets stable, even during war or disaster. As oil prices have climbed over the last few years amid surging demand and tight supplies, the Bush administration has looked to the Persian Gulf countries, particularly Saudi Arabia, to pump extra oil.

But doubts about Saudi Arabia's assurances of how much it can expand capacity - and for how long - have been raised in a secret intelligence report and in a separate analysis by a leading government oil adviser, according to a federal government official and the oil expert.

If those skeptical assessments are correct, the administration's hopes of increasing supplies would become still more difficult to fulfill. Washington's expectations about oil production from Iraq and the United Arab Emirates have proved overly optimistic, and the White House has failed to heed advice about both those countries from industry and government specialists, according to documents and interviews.

The challenges facing the Bush administration on energy come as oil companies are set to report record profits resulting from soaring prices for oil and natural gas. Exxon Mobil, the world's largest private oil company, is expected Thursday to announce a quarterly profit exceeding $8.5 billion, more than companies like Intel and Time Warner earn in a full year.

Asked about the profits on Wednesday, the White House press secretary, Scott McClellan, said "the government and the private sector have a role to play" in restoring the vital infrastructure damaged by the hurricanes this year along the Gulf of Mexico and over Florida. Gasoline prices spiked after Hurricanes Katrina and Rita, straining oil markets already tight because of the uncommonly low levels of spare capacity.

But when it comes to oil supply, American companies are limited: the countries that control most of the world's oil keep out private producers. So whatever the political repercussions from high energy costs, the administration has had little choice but to rely on the promises by Saudi Arabia, the world's largest exporter, that it would continue to be the market's linchpin.

"There's always been this tenet on the American side," said Nawaf Obaid, a consultant to Saudi Arabia on energy security, "that the Saudis knew what they were doing and rightfully so."

But a senior intelligence official, who insisted on remaining anonymous because he was not permitted to speak publicly on the issue, said that the Saudi plans to increase production by nearly 14 percent in the next four years were not enough to meet global demand. Even the Energy Information Administration recently scaled back its expectations of how much more oil the Saudis could pump in 20 years.

To be sure, as Mr. McClellan said Wednesday, there is more to President Bush's energy policy than seeking to ensure surplus capacity. The administration has called for increasing domestic production and refineries, development of alternative and renewable fuels, expanding nuclear energy and, recently, greater conservation. Still, the Persian Gulf countries are seen as crucial in moderating future prices.

During the 2000 presidential campaign, when high gasoline prices were an issue, Mr. Bush pledged to do a better job of influencing Persian Gulf producers to pump more oil.

Early on, the administration was mostly interested in whether the Saudis would produce more oil during the anticipated conflict in Iraq. Long before the war began, Saudi spare capacity - roughly three million barrels a day above the seven million barrels being pumped daily in 2002 - seemed adequate.

Productive capacity depends on the amount of oil in the ground as well as the infrastructure required to drill, process, store and transport the oil. In addition, increasing capacity is very costly and time-consuming.

"The long-term capacity was not considered a problem," said Robert W. Jordan, the American ambassador to Riyadh from 2001 to 2003. The Saudis, he added, "never expressed any concern about the need to expand."

"Nor did we, or at least me, engage them on this topic," he said.

In April 2002, when President Bush met Crown Prince Abdullah, now the Saudi king, the focus was not on oil but on Israeli-Palestinian matters, according to Mr. Jordan. The United States did not press the capacity issue because, even two years later, Saudi officials were publicly expressing confidence that there was no need over the next five years to add capacity.

Going to 12 million or 15 million barrels a day was possible, though, because the country had an estimated 150 billion barrels above the 260 billion in proven reserves, Nansen G. Saleri, a senior Saudi oil executive, said at an oil conference in Washington in February 2004.

Soon, though, rising demand from Asia made the need to invest in new production "a front-burner issue," according to Spencer Abraham, energy secretary in the president's first term. By May 2004, under pressure from the United States and other consumers, the Saudis promised to pump more oil. Saudi Aramco, the state-owned oil company, was planning to increase capacity to 12.5 million barrels a day by 2009.

Before long, Ali al-Naimi, the oil minister, and Saudi oil executives were saying that the country could add 200 billion barrels - from existing fields and yet-to-be-discovered resources - to its reserves, enabling production of 15 million barrels a day for 50 years or perhaps longer.

Just before meeting with Prince Abdullah in April, President Bush said he wanted "a straight answer" about how much extra oil the Saudis could pump.

At that session in Texas, the prince reaffirmed the previously announced expansion plans. Saudi Arabia's capacity now stands at about 11 million barrels a day. The Saudis pump about 9.5 million barrels, leaving a cushion of about 1.5 million barrels, mostly of heavier grades not very usable in the West. There is virtually no other global spare capacity.

Stephen J. Hadley, the national security adviser, told reporters after the meeting that the Saudi program was "a very good plan because it addresses the underlying issue you have when you talk about price, which is an issue of availability of oil and availability of capacity."

But there are doubts about the Saudi assertions about how much oil they have. Data about reserves is tightly guarded, and the Saudis dismiss skeptics as uninformed.

But they do not dismiss Edward O. Price Jr., the former head of exploration for Saudi Aramco and an adviser to the United States government on Persian Gulf oil during both Iraq wars. He questioned future reliance on Saudi capacity in an article in The New York Times last year and wanted to know from his former colleagues how they reached their estimate of more than 150 billion barrels of extra oil. Twenty years ago, a detailed study by geologists from four large American oil companies then in partnership with Aramco found little in the way of undiscovered oil resources, he said.

Mr. Saleri, who manages Saudi reservoirs, met with Mr. Price in the United States last year. Saudi Aramco officials declined to respond to questions about the meeting. But Mr. Price said in an interview that Mr. Saleri told him that the basis for the higher oil figures was a global study in 2000 by the United States Geological Survey estimating Saudi Arabia's undiscovered resources at 87 billion barrels.

Mr. Price said he responded that the estimates "by the U.S.G.S. had no credibility and far exceeded the detailed studies by the old Aramco team." The Aramco study, unlike the survey estimate, involved detailed field work.

Questions about Saudi Arabia's long-term estimates were also raised last year in a report by the National Intelligence Council, an advisory panel that produces the government's most authoritative intelligence estimates, according to a government official who insisted on not being identified because the report was classified.

In addition to Saudi Arabia, the Bush administration has viewed the United Arab Emirates as a supplier with excess capacity. In 2001, the emirates planned to increase capacity to 3 million barrels a day by 2005 from 2.5 million barrels a day then. But capacity has not grown in four years, which one administration official attributes to a lack of urgency by emirates officials and a lack of high-level attention by American officials.

An energy policy report by Vice President Dick Cheney in May 2001 recommended that the president actively support initiatives in Persian Gulf nations allowing foreign investment that could lead to increased production. The United Arab Emirates was cited as one of the few countries that could increase its oil-production capacity.

A status report on Mr. Cheney's task force, released in January by the Energy Department, said administration officials moved to carry out the recommendation in four countries. The U.A.E.

was not among them, however, and the president was not mentioned in the report.

When Mr. Bush spoke after the Iraq war with Sheik Zayed bin Sultan al-Nahayan, the emirates' ruler until his death late last year, he discussed security and Iraq, not oil investment issues, according to a Western diplomat, who spoke on condition of not being identified because of the sensitive nature of discussions between heads of state. A White House spokesman declined to comment.

Since the status report in January, the emirates announced that they would increase capacity to 2.7 million barrels a day by 2006, and long-stalled negotiations with Exxon Mobil to develop an offshore field began moving to completion. But the country's capacity remains at 2.5 million barrels a day, with nothing in reserve, according to the Energy Information Administration.

In Iraq, too, the Bush administration's hopes have been disappointed. The removal of Saddam Hussein in 2003 changed Iraq from a pariah into a possible backstop for global oil markets. Soon after the invasion, top administration officials were bullish about Iraq's production: they said it would exceed the prewar level of 2.5 million barrels a day and reach 3 million barrels by the end of 2003 or late 2004.

But a report in July by the Government Accountability Office found that Iraqi production had declined since late 2004 to 2.1 million barrels a day from 2.5 million barrels, despite White House legislative requests for almost $3 billion to restore the oil industry there to its prewar abilities.

An important reason for the decline, the report found, was improper management of the reservoirs. Gary Edson, then a deputy national security adviser, was told two years ago that Iraqi production would drop, not increase, according to an outside report presented to him.

A White House spokesman, Frederick Jones, declined to discuss the report. But, according to Wayne Kelley, a petroleum engineer who wrote the report and discussed it with Mr. Edson in November 2003, the message fell on deaf ears.