

Source of Rising Oil Prices of 2005-2008 -

Hurricanes, Declining Petroleum Reserves and Middle East tension.

Week 3 Written Assignment

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ENG 102 English Composition II

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The purpose of this article is to research, formulate and validate - the causes of increased oil prices from 2005 to 2008. After careful consideration of many different sources, the data suggests that the cause of increased oil prices from 2005-2008 was the result of hurricanes, decline in petroleum reserves, and Middle-East tension.

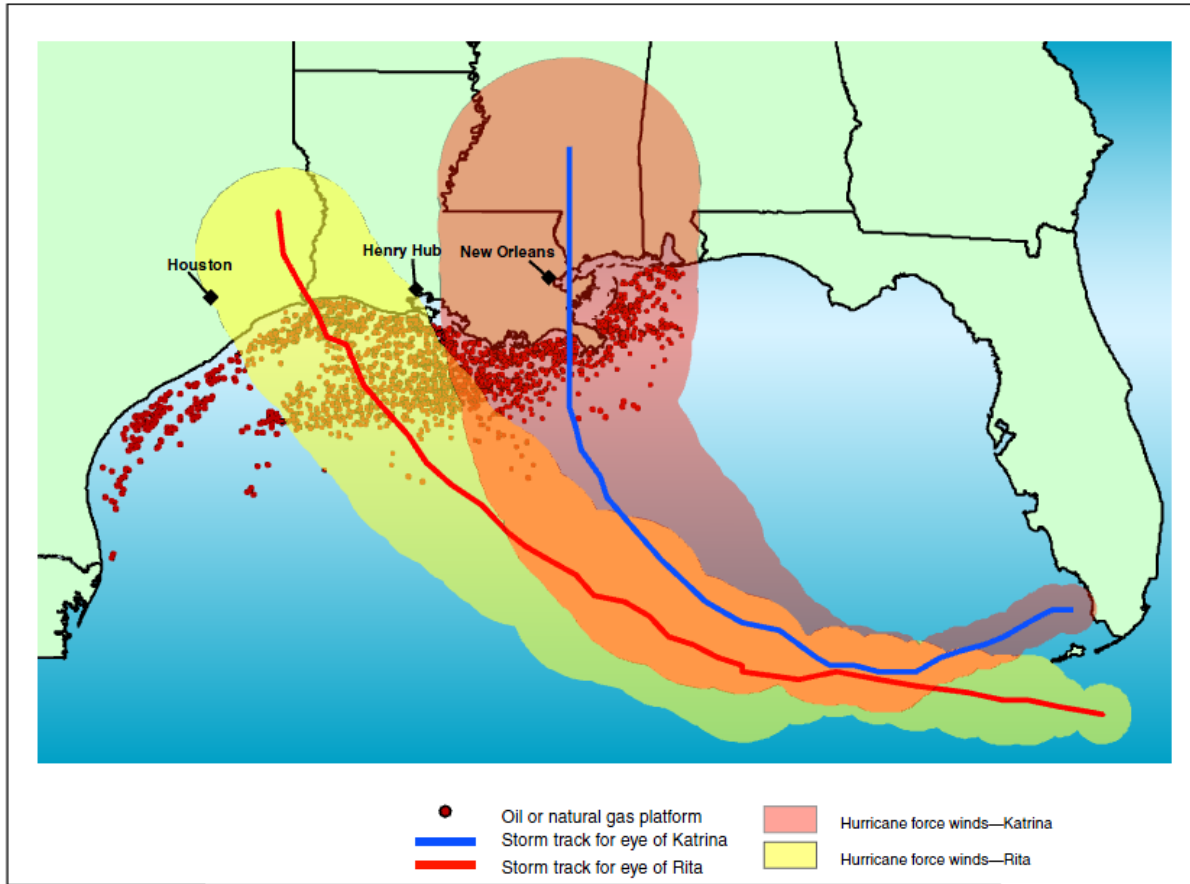
In 2005, Hurricane Katrina shut down oil production in the Gulf of Mexico. Immediately after Hurricane Katrina hit landfall, the Colonial Pipeline reported a shutdown of two lines (Congressional Reports: S. Rpt. 109-322, 2006). Hurricane Katrina shut down a region that produces and refines a major portion of the nation's oil supply. "Refinery shutdowns in the Gulf of Mexico region totaled 367,000 barrels per day (bbl/d) as of December 15, 2005." (U.S. Energy Information Administration, 2005)

Hurricane Katrina and Rita had a major effect on the Gulf of Mexico's oil production (see Figure 1). The unexpected decrease in the supply of natural gas caused a price spike. Hurricanes caused damage to production, processing, importing, and transporting infrastructure in the Gulf region, resulting in wholesale prices climbing to a \$15 per million BTU's by December 2005 (2006, United States Government Accountability Office).

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Figure 1: Path of Hurricanes Katrina and Rita Relative to Oil and Natural Gas Production



Source: GAO analysis of data provided by the National Weather Service and the Minerals Management Service.

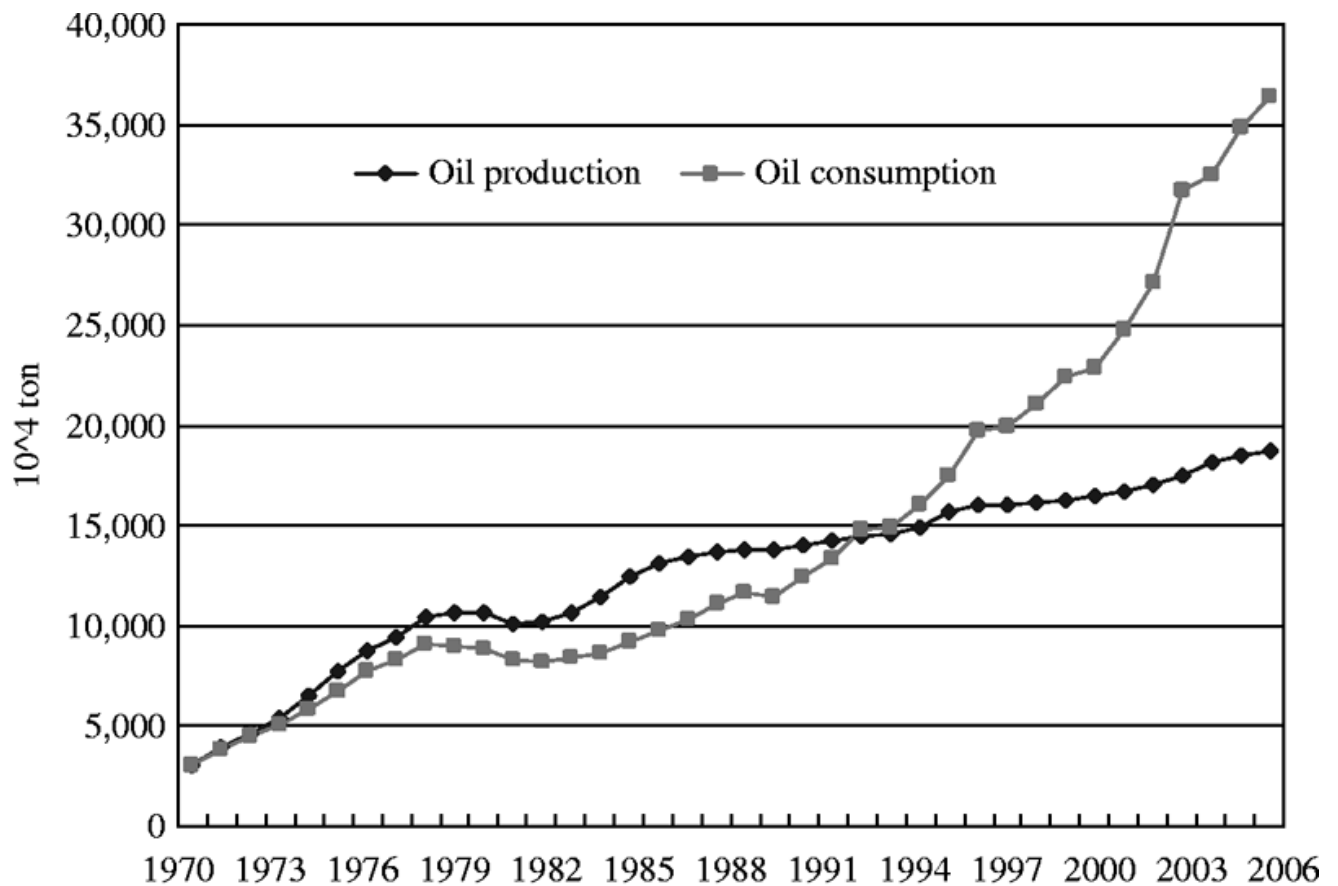
The oil industry follows the laws of supply and demand. Supply and demand clearly states that when the demand of any product is much greater than the current supply, the producer(s) must increase prices of that product in an effort to control supply and demand. The oil industry is not immune to this law therefore, a decline in petroleum reserves, or a threat to these reserves, will result in an increase in oil prices.

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Oil reserve shortages are inevitable unless radical changes occur in demand or in the supply non-conventional energy sources. (Bentley, 2001) The demand for oil has increased over 100% over the past 20 years (see Figure 2).

Figure 2 - Oil Productions, Oil Consumptions, 1970 – 2006.



Source: *International Petroleum Economics*, various years, Petroleum Economic Commission of Chinese Petroleum Society

It seems apparent that Middle East tension has caused an increase in oil prices, as many of those increases correspond directly to tensions between the U.S. and suppliers in the Middle

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East. The following list of dates and events shows a relational dependence between increase in oil costs and Middle East tension:

- On July 6, 2006, tensions with North Korea sent the oil prices to a new record high of \$75.19 per barrel. (Schienberg, 2006)
- At the time of the U.S. invasion of Iraq, in 2003, the price of a barrel of oil was around \$25. Five years later, the prices increased to over \$100 a barrel. (Moran, 2008)
- On February 6, 2006, after Iran announced that it will no longer allow snap inspection of its nuclear sites, the price of U.S. light, sweet crude oil rose from \$1.01 to \$66.38 a barrel. (BBC, 2006)

As the data in this article suggests, hurricanes, Middle East tension, and diminishing supply all had an effect on the increases in oil prices from 2005 – 2008. Hurricanes initialized the process of higher prices in 2005. Middle East tensions combined with the laws of supply and demand contributed to the increases over the next 3 years. Even though one might make a political argument for or against any of these causes, a political argument is only valid if the data supports its claim.

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