



## A Dickensian Situation

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When I was young I was fascinated by a small china statuette that my Grandparents had of Mr Micawber. He is a character, and a sympathetic one, in Charles Dickens's book "David Copperfield", in the course of which he goes into debt. His explanation of his financial condition can be compared to the coming world experience as we now live through Hubbert's Peak. You might, in today's phraseology, call this the Money quote:

'My other piece of advice, Copperfield,' said Mr. Micawber, 'you know. Annual income twenty pounds, annual expenditure nineteen nineteen and six, result happiness. Annual income twenty pounds, annual expenditure twenty pounds ought and six, result misery. The blossom is blighted, the leaf is withered, the god of day goes down upon the dreary scene, and - and in short you are for ever floored. As I am!'

In this case consider that our expenses, i.e. the world use of oil, went up last year to around 83 million barrels every day (mbd). (A barrel is 42 gallons). Now as long as our supplies (income) can match this outlay then we are in happiness. This was, in relative terms, where we ended last year.

However this year our expenses are going to go up. It is a little difficult to predict exactly how much but current predictions are for this to be around 2 mbd. Let us equate this to the old English sixpence (which was back then worth about a dime. Twenty pounds being worth about \$100).

If we follow the Micawber example if our income, world oil supply is equal to or greater than our expenses then we can stay happy. But here is the rub.

When world oil production is just about as high as it can be (non-OPEC countries are now producing just about as fast as they can) and OPEC spare capacity is down to around an additional 1.3 mbd. then our income this year will likely not be much above 85 mbd, if it gets there. (In a later post I will explain why it probably won't).

So we are at the point where within the next few months income and expenditures will be in balance (Micawber's twenty pounds). Except that the industry being a big one there are always things going wrong. In the latter part of last year for example we had:

the hurricanes in the Gulf that closed down about 0.5 mbd of production for several months, oil production in Iraq, which should be around 3 mbd, but because of pipeline bombings etc dropped below 2 mbd, there were frequent threatened strikes on the oil platforms in Nigeria, and Russian production declined more drastically than had been anticipated.

Some of these are still with us, some have been resolved. And other problems, such as the complete employment of the world tanker fleet, have yet to make an impact. But any one can

drop supply.

Yet while our supply (income) is about at a peak (twenty pounds), our expenses (demand) are still going up by this sixpence a year. So that some time this year expenses will have gone from twenty pounds to twenty pounds and sixpence. A number of economists had been predicting that there would be a reduction in the rise in demand to keep us below that figure, but it is already clear that they do not adequately recognize the considerable needs in China and India that drive this increase (and they only have to read the papers to see it).

The big question is when will we reach the point that we cross over the balance point. Right now with the Saudi Arabian government saying that they can increase production by up to 1.5 mbd one might think we could get through to just about the end of this year. Unfortunately some of us are a little cynical about that number, and I'll explain why in another post.

One final gloomy thought - production in other countries (such as the UK) is falling, and the countries that used that supply must find another source. And if we are now at the peak of production, then our income cannot increase above twenty pounds and may indeed fall back below twenty pounds, while our expenses will continue to increase to twenty pounds and sixpence. It is not the absolute size of the market that will now drive, but the relatively small fluctuations that take us out of balance.

The result is misery, and we are for ever floored.

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