



The problems of ignorance

Posted by [Heading Out](#) on March 29, 2005 - 10:43am

Its hard to estimate the exact rate at which many oil reservoirs are declining in production, since this is still a very secretive business. But the increases in demand are encouraging countries to increase production beyond the point that is wise. Since this is not a new habit, normal production declines at around 3% per year may be overly optimistic as an estimate for the rate of decline of older fields.

Tracking back to an article by [Julian Jackson](#) on March 14th. He is highly cynical that we will see an upsurge in production to lower prices, and the relevant quote is

OPEC has only a limited capacity to pump any more oil. "One does not have to be a convert to the "Peak Oil" concept to be aware that outside the FSU [Former Soviet Union] oil production appears to be very near peaking, with output from new discoveries just barely offsetting depletion in mature producing conventional oilfields." ([7 February, 2005 Herman Franssen, The End of Cheap Oil: Cyclical Or Structural Change in the Global Oil Market?](#))

High technology extraction is dangerous: if you extract oil from a field too fast, you damage it, causing dramatic declines such as seen recently in the North Sea (up to 9% per year instead of the expected 3% norm). [Energy Banker Matthew Simmons](#) stated: "The faster you pull a reservoir, the faster you pull out all of the easy-to-produce oil. What happens is that you lose massive amounts of what the oil industry calls 'oil-left-behind' still inside the field." (20 February, 2005)

If this is so, why don't they say so? Probably because they are unstable rÃ©gimes with booming populations, like Saudi Arabia, and fear that if they told the truth the US might invade them to grab the remaining oil. Or their people might revolt if they found out that their already declining standard of living was about to drop further.

If we have hit the structural production peak of oil worldwide, then the trajectory of prices will be relentlessly upward, with only temporary respites. The spokesmen will blather on about 'terrorism' or 'refinery fires', but the prices will tell the real story. If the increasing prices start a recession that reduces demand, there will be another temporary 'respite' as production continues a relentless decline after we have gone over the peak.

"Oil prices will rise through 2008 and stay high thereafter as demand increases and concern mounts that global production is nearing its peak," according to analysts at Lehman Brothers Holdings Inc. (March 8, 2005)

When Lehman Brothers admits oil is peaking on [Bloomberg](#), its time to fasten your

The Simmons article is a good one to read because it explains part of the concern with trying to produce too much oil too quickly from a field, and how this can accelerate the collapse of production and lower the total amount of oil you can get out of the field. The only overall concern with the article is that it assumes that the FSU production is going up, while there are reports (which I will post) that show it is going down.

Technorati tags: [peak oil](#), [economics](#), [Saudi oil](#).



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