A further comment on "That's Oil, folks . . ."

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Prof G has just made reference to the new article in Nature, concerning the possibility of Peak Oil, and hiding under the title "That's oil, folks . . ." It begins with a comment on the Boston Meeting on Peak Oil and Gas last October, but largely is a review, by their Chief of Correspondents of some of the issues, with the major proponents of the opposing sides being Matt Simmons and Peter Jackson Of Cambridge Energy Research Associates (CERA).

While, I suspect that there is little real benefit is re-rehearsing all the arguments that we could put forward, since they have been brought up in a number of responses to the publications of CERA over the past few months, particularly those by Dave and Euan, though they merely exemplify a number, yet I feel a response is called for since, *inter alia*, the President of Aramco just said:

> Over the last several years, no less than thirty books have been devoted to the "peak oil" theory, the imminent exhaustion of oil, and the world's inability to grow future petroleum supplies. The peak oil proponents routinely used the rise in oil prices over the last several years as evidence for their arguments about scarcity, but with the recent pullback in prices and the moderating call on oil from Saudi Aramco and other major producers, many now acknowledge there is actually an oversupply of petroleum in the market. In fact, what seems to be in short supply these days are vocal peak oil theorists!

Well, the rising production of the growingly-expensive alternate fuel, ethanol, would suggest, at least to some, that this is more than a theory, and the growing inability of some of the poorer nations to provide adequate power to their people would underline that suggestion. The demand destruction that lowers demand and thereby stretches supply is already occurring.

One of the problems, of course, with this story is the short memory that folk have, so that when President Jum'ah says that prices are dropping back he, and the other proponents neglect to mention that they are still considerably above the $38 a barrel that those, that I will again call cornucopians, have suggested would be the current price were there no problem. But the other is that for a reporter, short of spending a lot of time doing a personal investigation, must rely on experts and, just as with a jury relying on expert witnesses, assume that they are being truthful commentators in their turn. And it is appropriate for them to note where folk such as Colin Campbell have been wrong in their forecasts in the past.

Thus it is easy to suggest, by talking about reserves, and the potential of oil shale, and tar sand and other unconventional resources, that the world is not really going to have a problem for

decades. We can look to volumes of hydrocarbon in the trillions of barrels, if you count all these potential sources, and also assume that oil fields only grow from the original estimates of reserves established when the fields are first developed.

Sadly, however, there are several problems here that are quietly glossed over. In the former case we don't have the technology that we need to economically get a lot of the resource into a useful form where we need it. In the latter increasing reserves from a field is not always the case, and, as we have seen following Katrina, there are oilfields where the remaining oil is already inadequate to justify re-developing the field, after the initial production platforms were destroyed. And the development of existing fields is, in itself, not guaranteed. Bear in mind that while the article comments on the addition to the reserves of fields such as Thunder Horse, with it's 300 million barrels of oil, the field was discovered in 1999 and the platform set to start production at 250,000 bd in 2005, was hit by Hurricane Dennis and had to be salvaged , the current plan anticipates that it will not now be on line until mid 2008, at the earliest. As the need for oil carries the industry further off-shore and literally into deeper waters, often only the potential production hits the headlines. Chris Nelder had a very good editorial about the reality of the potential problems, particularly with the development of the Chevron discovery at Jack #2. His final conclusion was that the field was unlikely to come into production at levels even close to 300,000 bd, and that even then, the decision to develop the field won't likely be made until 2008. This for a field that was touted, at the time, as holding 15 billion barrels of oil, and being a savior for the country.

Further, as the debate over this situation continues, one should bear in mind that the levels of current production are still governed by demand. A small portion of current production goes into storage, but most passes through the refineries and into use by the general public. As long as there is more than adequate supply to meet the need at the price being demanded, then the levels of supply will appear adequate. Further demand fluctuates over the course of a year, and, in this the relatively quiet season, it is difficult to more clearly read the tea leaves. However, if, as we anticipate, that cushion of available production over demand is getting smaller, and may soon (for the demand level at reasonable price) disappear, so that price will effectively control demand, and that price may be high. At that point, which is coming a lot sooner than the general public understand, it becomes too late to find an immediate alternate solution to the problem.

Thus there is the very real danger that equivocation leads to a public complacency, and hides the likely problem of not being able to meet, on a daily basis, the demand of the world for liquid fuels over the next fifteen to twenty years. Within that time period the likelihood of significant input from alternate approaches (which Nature addressed on December 7th, but for which they now want $30 an article – and I am not going to trog over to our library to search it out) is slim – as has been made clear in various government reports that we have reviewed over the last year.

In the end the report does not really draw a conclusion but ends with the following

> To predict peak oil in advance,"you need some kind of nice price signal," he says, "and we don't see any of those signs yet."

One place to look for such signals might conceivably be in the prices for which oil is bought and sold on the futures market. And at the moment, the New York mercantile exchange is settling on prices around US$67 a barrel. It's a price high enough to make alternative fuels interesting, but in real terms not remarkably high compared with long-term averages. If oil production does start to collapse, peak-oil supporters who want to stock their bunkers with luxury goods have the opportunity to make a killing, by buying tomorrow's oil comparatively cheap and selling it, when

the time comes, much more dearly. If, that is, the time does actually come.

The good news is that folks are beginning to consider the issue within a broader community than before. The bad news is that, with the limited time and knowledge that reporters have they are increasingly unwilling to use their judgment in deciding who might be right. They rely on those who, like Peter Jackson, can blithely state "there's a lot of new capacity coming on the market," without concurrently admitting that "there's a lot of old oil depletion permanently leaving the market," and that paying $10 billion to produce an additional 100,000 bd is not an indication that there is a lot of oil just waiting to come onto the market.

All we can do, in the short term, is keep documenting the changes, and pointing out what they really mean. In time it will have a greater impact, but if anyone is looking for great praise in the end, they might want to look up what happened to Cassandra.