The ASPO Conference - First Afternoon

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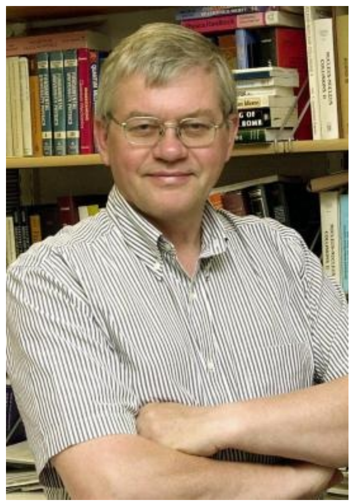

President of ASPO, Kjell Aleklett

The afternoon session of the first day of the Conference was chaired by the Economics Editor of RTE, George Lee who pointed out the general public lack of awareness of the current situation. He noted that when he did a program on the subject he was assailed by the Irish media, with negative cartoons, and the clear impression that he was on a subject that the public did not understand, or care to know about. The first presentation was by Dr Herman Franssen of the IEA, talking about Global Energy Demand trends. Sad to admit, I did not get to hear this so I will pass on to the second paper, which was by Professor Pang the founder of ASPO-China. He noted that China had peaked in oil production in 2005. As production continues it has a ratio of 12:1 between reserves and production of crude, (relative to a figure he quoted of 40:1 for the world ratio); and 42:1 for natural gas (against a world ratio of 60:1). In consequence China spent $63 billion on importing fuel in 2006. In order to meet demand China is sending delegations around the world and now has 65 projects in 25 countries. It has just become a coal-importing country (and in response to a question from Dr. Schlesinger he confirmed that China has cancelled its CTL plans, because of the amount of coal that would be needed for their operation).

China has initiated a program to increase self-produced oil, to reduce oil consumption and to develop renewable alternatives.

The third speaker was Jeff Rubin of CIBC in Canada, who has been following this for some time. He sees a changing set of demand dynamics as the world thirst for oil invalidates some preconceptions. For example one might have thought that the increase in price would shackle demand, but it did not. However that only holds as an overall observation, for example demand outside the OECD grew by 4% last year, Canadian, American, European and Japanese demand declined, combining to give an overall increase of around 2%. He anticipates that by 2015 non-OECD will out-consume the OECD, partially as a result of price and the "carbon wars." This will be led by China and India, but one must also look to the oil producing countries, where oil is cheap and demand is burgeoning. Over the past 5 years, for example, Kuwait has averaged 7% growth, Saudi Arabia 5%, and Iran 4.5%. OPEC, Russia and Mexico collectively consume 12.2 mbd (300,000 bd more than Western Europe) and their growth will likely continue and begin to constrict exports from those producers. Within the next four years, for example, he anticipates that the above group will increase production by about 0.5 mbd, but with a domestic increase in demand of 1.5 mbd will effectively have to cut exports by about 1 mbd to stay in balance.

He felt that Russia's role in providing a growing supply is beginning to be played out, with rising domestic consumption of up to 4.5% swamping any gains in production. He thinks that current export levels will be the best that Russia will provide, at around 7 mbd, and the shortfall from anticipated growth will not be available from OPEC. Mexican production is failing along the lines of their "worst case" scenario, but domestic demand is growing at 4%, so that exports may drop to 200,000 bd by 2010. The result will be prices above $80 in the 4th Quarter of this year, and $100 oil next year. And, while this will reduce demand further in the OECD, it will have no effect on consumption in the production group, where price is not affected.

This changing picture will improve oil sand economics and so he sees Albertan oil coming in at 3.5 mbd by 2015 (note he is a Canadian economist). Even with an additional $3 to $4 added to oil supply costs to deal with carbon dioxide issues, the oil sands will move to displace deep offshore as the marginal source of oil supply. And, increasingly, it will become one of the very few places where international oil companies can continue to operate, becoming the "last, best game in town. "

The three speakers were then joined by an additional set for the panel discussion, with introductory remarks led off by Jim Barry who chose to leave most of his remarks to a later presentation, since he was to be our host and speaker at the Gala Dinner. He was joined by Richard Douthwaite who talked of carbon rationing and its role as a "scarcity rent" as availability of hydrocarbons declines. He felt that we are heading into a global recession, and for many of the poor Peak Oil has already happened. It is not yet so for the rich, who are further separating themselves from those to whom a liter of petrol now costs 3 weeks of labour. He noted that world grain stocks are at their lowest level in 30 years, and considering that this is due to Global Warming (GW) he felt that the way to reduce carbon use per person was to go to a "cap and trade" system. With the creation of a market for individual portions of the cap he felt that this would be a way of constraining production while also acting to provide the poor with an income, since they could sell their quota.

David Fleming spoke to the need to reduce energy demand both from a Peak Oil and a GW point of view. From this he had developed the Tradable Energy Quotas this is something like the cap shares that Richard Douthwaite mentioned though they are distinctly different ideas.

On being asked as to where the leadership lay, the reply was that is lies with the political leadership. Politicians are a focused target and it would take too long to develop as a public issue, but that is the challenge for new leaders. And noting that they are starting to ration gasoline (petrol) in Iran, it was noted that politicians could do this and survive, while effectively rationing using a gas tax would likely get them fired.

In response to a question as to why, with North America being post-gas peak, natural gas prices were down, the answer was given that although it is becoming difficult to license new coal-fired power plants in the USA, the weather has led to storage being filled, we are going into an anticipated warm winter, and with some additional LNG having gone to the USA this summer, rather than to Europe it is currently in surplus. However the LNG situation is likely to become a fair bit more complex by 2012.

Again it was here that Professor Pang noted that China is dropping CTL, apart from running the odd experiment, since the needs for alternate uses of coal, which China now needs to import, and the poor EROI of the Fischer-Tropsch process has led them to conclude they are better chasing alternate uses.

The proceedings drew to a close with Kjell Aleklett the President of ASPO summarizing the day. He doubted that we would make the 100 mbdoe, and noted that, to the public Peak Oil may be considered as a crocodile – nothing but a dozing log until suddenly we're toast.

For the evening we were graciously hosted at the County Hall, being piped into the hall by Scottish bagpipes, and then, together with welcoming remarks from Jim Barry, we enjoyed a very pleasant dinner (I was surprised to eat the best boiled tatties of my life) and after songs and dances from Ireland, we retired – in my case to compose your report.

To be continued .. . . .