The Oil Drum: Europe
DISCUSSIONS ABOUT ENERGY AND OUR FUTURE

Peak oil: BP, Conoco CEOs say it's here - also IEA's Fatih Birol really freaks out

Posted by Jerome a Paris on November 11, 2007 - 10:30am in The Oil Drum: Europe
Topic: Policy/Politics
Tags: bp, conocophillips, iea [list all tags]

After the CEO of Total (the French oil major) last week, two more CEOs of an oil major came out this Thursday to give stark warnings that mean that peak oil is happening right now. In addition, the chief economist of the International Energy Agency (the IEA), one of the main cheerleaders of the "there's more than enough oil" camp until now, is giving an extraordinarily pessimistic interview in the Financial Times, following the recent publication of their latest *World Energy Outlook*.

Let me take you through all their affirmations.

> Big Oil CEOs Point To Constraints On Supply Growth
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> HOUSTON -(Dow Jones)- Pointing to a variety of political and technological constraints on energy investment, chief executives at two oil giants Thursday highlighted systemic limitations on the growth of the supply of oil, implying that there will be high oil prices for at least the medium term.

The fact that two CEOs spoke separately, but at the same conference, on this topic, is, in itself, significant. We've already had various "worried" messages coming from executives or senior analysts of the oil world with bearish messages, but they could be reported in isolation, and safely ignored the next day. This time, very similar messages came from 2 sources, making it harder to ignore (and, of course, the proximity of the symbolic $100 barrel makes it all the more newsworthy).

But let's get to the gist of it:

> ConocoPhillips (COP) Chief Executive James Mulva had earlier told a New York financial conference that he doubted that world oil producers would be able to meet forecast long-term energy demand growth. The International Energy Agency, the energy watchdog for western economies, has projected 2030 world oil demand of 116 million barrels a day. But Mulva said he doesn't believe oil supply will ever exceed 100 million barrels a day. He didn't offer a price forecast.
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> "Demand will be going up, but it will be constrained by supply," Mulva said. " I don't think we are going to see the supply going over 100 million barrels a day and the reason is: Where is all that going to come from?"

"Where is the oil going to come from?" This is the CEO of the third biggest oil major in the USA, admitting that we no longer know where we can get access to oil. And he's repeating exactly what Christophe de Margerie, the boss of energy giant Total said a few days before: that IEA's projections, that everybody uses, are completely absurd (and, as you'll see in second, the chief economist of the very same IEA is, very schizophrenically, essentially saying the same thing...)

Given that demand is set to be way above 100mb/d within a few years (it's at around 86-88mb/d right now), we have a problem - if the supply's not there, we'll need demand destruction, ie people and economies that wanted oil and will be doing without instead. Will that happen in a controlled way, or be imposed on us/them? The question is still not asked enough by and to politicians...

But moving on to CEO n°2, that of BP, the British oil giant:

> [BP plc (BP) Chief Executive Tony] Hayward said "about half" the world's oil has been recovered, but he implied that significant improvement is possible on a broader scale. "The biggest source of new oil will come from increasing recovery," he said.
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> Although BP has increased the oil price it uses to test whether energy investments are economical, Hayward rejected the idea that oil prices have shifted permanently into a higher trading range - along with the notion that the world has hit peak oil production.

Despite "rejecting the notion" of a peak in production, he is nevertheless the first senior oil executive, to my knowledge, to say that "half the oil" being gone - something which is usually considered to happen at pretty much the same time as peak production (although the two are not necessarily simultaneous). Even with enhanced recovery techniques, no country has been able to increase its maximum production once the peak had been reached - starting with the US and the North Sea region, where oil companies have had all the liberty to use all the most sophisticated techniques.

So yes, it is a pretty huge deal that the BP CEO says that half the oil is gone.

But, in a way, this is almost small beer compared to the various bombs dropped by IEA chief economist Fatih Birol in his interview with the FT. The interview is very long, but well worth reading in its entirety. I'm providing a few quotes below, but for those of you that arre finding this diary long already, here's the quick summary:

- we are beyond peak oil in the non-OPEC world;
- OPEC *officially* has lots of reserves - but we don't really know;
- even if they make all the investment plans announced are made and are on time, we'll still have a gap of 12.5mb/d (more than 10% of overall demand) by 2015; we now officially need to beg OPEC to invest more;
- oh, and by the way, that's the *smaller* of the two energy-related problems we have: climate change is a lot worse.

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Here are a few quotes:

> FATIH BIROL: There are two major messages I was getting from the book. The first one is exactly what you say. The energy security risks are so strong, and probably increasing, for an upward event in the markets, and the second is on the climate change, on the CO2 emissions, the levels are reaching a certain level that we are [getting to] an

> irreversible trend for our planet.
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> (...)
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> my message is that, **if we don't do anything very quickly, and in a bold manner, the wheels may fall off**.
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> (...)
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> FB: On the energy security, oil prices part, the numbers, one doesn't need to be a big energy expert or anything: it's just mathematics. I can tell you that **we, in the next seven to eight years, need to bring about 37.5 million barrels per day of oil into the markets**, for two reasons. One, the increase in the demand, about one third of it, and two thirds, there is a decline in the existing fields [and there is a need] to compensate for the decline. (...) [what] we expect [to be put in production] is 25 million barrels per day, and this is in the case of no slippages, no delays in the projects, and everything goes on time, which is very rare. So, **there is a gap of 13.5 [sic] million barrels per day. (...) Within the next seven years**.

What needs to be underlined here is that we already know, to a large extent, what oil fields will be put in production over the next 5-7 years. It takes several years to put a field online, and thus most of that medium term future capacity is already in the planning stage or in the construction phase, and is known to the industry and to institutions like the IEA which can have access to confidential company or national data.

And they are telling us we have this HUGE gap - just to give you an idea, it's almost equal to US imports... unless OPEC suddenly decides to invest more.

> There are three major demand centres now, China, India and the Middle East.
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> (...)
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> So, demand will grow, and I think, **if the governments of OECD, China and India, leave everything to the markets, in terms of slowing down the demand, they will make a historical mistake**. In addition to the price related adjustments on demand, we need regulatory measures, such as efficiency improvements in the markets.

He notes the various reasons that push demand up, starting with demand growth in countries that are in an economic boom and thus not very sensitive to price - or willing tpo pay higher prices, and compounded by the fact that energy is subsidized in many countries, including India and China, but also the Middle East - as has been noted before, oil producing countries are those where demand is growing fastest, on the hell of oil income prosperity and subsidized gasoline, a phenomenon that cuts into export availability.

and that unavoidable message: market solutions will not work. We need collective, government-driven action. (In other words, we need Democrats in the USA - no surprise there).

> we think that, in the Opec countries, there are enough reserves. We are not sure if there is a political will to make something out of those reserves, but there are enough reserves **as officially reported**. However, as you rightly say, we are getting more pessimistic about non-Opec production.

Ah... the little matter that nobody knows what the real reserves of OPEC countries are - they were pushed artificially in the 80s in the quotas wars: export quotas being proportional to reserves, all countries 'unveiled' new reserves... Kuwait has recently admitted that its reserves were only half their previous claims, and there is wide suspicion that it's the same for others. But the IEA has been using official OPEC numbers for years without ever rising the issue so, again, that small proviso in Birol's words is noticeable...

> we think there are some geological problems in the non-Opec areas. This is not an investment issue, not a political issue, but it is more geology, because of a huge decline in the non-Opec countries.

Again, peak oil with another name.

Fatih Birol has more words about the low impact of Canadian tar sands, about Iran's production decline (compounded by the current tensions, which are not conducive to investment...), and flags the low efficiency of China and India's energy use, and the fact that unless they change behavior right now (simple things like using higher energy standards for fridges and other appliances, and modern technology for their power plants), they will be stuck for decades with inefficient - and carbon spewing - energy gobblers.

All in all, these declarations and this interview underpin the gravity of our energy crisis. One would think that $100 oil would be a wake up call, but alas, we still seem to be in full demagogic, declarative mode. Will we have to wait for actual shortages and lines to do something?

No poll, the answer is Yes.