



## Psst, your Emperor-Worship, why are you naked?

Posted by [Heading Out](#) on April 7, 2005 - 10:55am

It would be nice to pretend that I was still young enough to be the child of the legend, who went up to the Emperor and asked about his missing clothes. But surely someone can cough gently after [Chairman Greenspan](#) said today:

Federal Reserve Chairman Alan Greenspan said on Tuesday market forces could lead to a big enough increase in crude oil inventories to cool the recent "frenzy" that has sent prices to record highs.

Greenspan said the high oil prices of recent months had slowed oil demand growth, although "only modestly," contributing to a faster pace of oil inventory building.

He added that stockpiling could pick up further as producers seek to cash in on the higher prices future oil deliveries command.

I think this is where we see the basic disagreement between the economists who predict based on theoretical models and historic behavior, and the scientists and engineers who realize that you cannot legislate or theorize the presence of oil that is not there, and have it show up on the market two weeks later.

To simplify the situation - world demand this year is predicted to increase 2.4 mbd. The supplies outside of OPEC are dropping at around 1 mbd/year. Within OPEC the only major player is Saudi Arabia, whose proposed increase this year is less than 1 mbd, and whose reserve to meet unexpected demand may be an oil field that has currently unrefinable oil. I see no evidence therefore to justify Chairman Greenspan's claim that market forces will generate the supplies needed to meet growing demand, albeit at the higher price. In fact, my immediate response to the article was, "and where precisely does he anticipate that it will come from?"

But you know what is the nice thing about what they call the hard disciplines? The answer is not theoretical. Either by the end of the year the Chairman will be right or wrong. If he is right gas prices will fall back, if wrong they will increase, and gas will become short. Unfortunately should he be proved wrong we have lost valuable time to find answers. In this regard, I thought [Paul Krugman's column](#) was kind of relevant.

Technorati tags: [peak oil](#)



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