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UK Industry Taskforce Sounds Alarm on Peak Oil

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On Wednesday 29th October 2008 I attended a press conference at the London Stock Exchange. The meeting was convened by the *"Industry Taskforce on Peak Oil & Energy Security"* (www.peakoiltaskforce.net) to introduce a new report: The Oil Crunch, securing the UK's energy future.

September last year, former US Energy Secretary Dr James Schlesinger addressed the ASPO6 conference in Cork, Ireland with these words:

> The peakists have won ... to the peakists I say, you can declare victory. You are no longer the beleaguered small minority of voices crying in the wilderness. You are now mainstream. You must learn to take yes for an answer and be gracious in victory.

The taskforce behind this report formed around 18 months ago.

Wednesday's meeting proved Schlesinger right. A group of serious, respectable organisations, had just published a serious and respectable report, in a serious and respectable venue stating:

> The effects of peak oil will be felt in the next five years.
>
> The risks to UK society from peak oil are far greater than those that tend to occupy the Government's risk-thinking, including terrorism.
>
> The UK Government needs to re-prioritise peak oil – as the impacts are more likely to arrive first – before climate change.

The Taskforce

"no longer the beleaguered small minority of voices crying in the wilderness".

FirstGroup plc – the world's leading transport company. Annual revenue of over $5bn, 137,000 employees and carry more than 2.5bn passengers per year.

Scottish and Southern Energy (SSE) – one of the UK's big six electricity companies.

Solarcentury – one of Europe's leading solar energy companies, specialising in design and supply of building integrated solar thermal and electric technology.

Stagecoach Group – public transport group operating bus, coach, rail and tram services. Employs around 30,000 people with extensive operations in UK, US and Canada.

Virgin – a leading branded venture capital organisation, has created more than 250 branded companies, employs approximately 50,000 people in 29 countries. 2007 revenue exceeded $22bn.

Arup – a global firm of designers, engineers and business consultants with over 10,000 staff working in 37 countries.

Foster + Partners – an international studio for architecture, planning and design.

Yahoo - a leading Internet services company.

These companies have come together in this taskforce with the commonly held belief that the threats to energy security are not receiving the attention they merit. Where have we heard that before? The aim of this report is to engage government on the peak oil threat and to alert other businesses and the public to the problem.

I note the involvement of public transport and the absence of the private transport sector. This might say more about the state of the UK car industry than the sector's position on peak oil. Virgin's interest seems to stem from aviation and train businesses however the taskforce's chair is Will Whitehone president of Virgin Galactic, the company trying to create the world's first commercial spaceline. He did a very good job at the press conference presenting the report however (and I now regret not asking him) it eludes me as to how space travel sits with peak oil occurring within the next 5 years.

The Context

The context of the report was explained by Will Whitehorn. This was not just a response to this summer's extreme price rises but the result of a broad range of companies recognising something was up in the oil market. The unacceptable uncertainty in the future oil supply/demand spurned this research. The taskforce concluded that we are going to reach peak in the early part of the next decade and that this represents a serious threat.

That conclusion is not new to regular Oil Drum readers. What is new is that a man like Will Whitehorn is saying it – with the support of those companies. The report is downloadable from the companies websites.

Jeremy Leggett made an analogy between the credit-crunch and the coming oil crunch:

> If you could have imagined five years ago, eight companies across a big spectrum of British industry warning the government that five years hence – now – there would be a thing called a credit crunch because the financial institutions had been irrationally exuberant about their ability to manage really complex financial instruments ... had that happened, had they listened and exercised [proactively] the kind of leadership they now have exercised retroactively ... could we have softened the blow?
>
> The difference with the oil crunch is that, if our analysis is correct, there are three to five years where we could try and engineer a soft landing, begin the restructuring ahead of time.

Risk

The main body of the report consists to two risk assessments – two essays on the "Risk from Oil Depletion". The first from Chris Skrebowski making the case for oil supplies peaking within the early part of the next decade and encouragingly the second essay or risk assessment was provided by Royal Dutch Shell, authored by Jeremy Benrham, Vice-President Global Business Environment. Whilst not part of the taskforce Shell were willing to engage constructively.

Shell's position is not as cornucopian as it could have been. They criticise the language of "peak oil", preferring to talk of sustained plateaus and muddy the waters somewhat by only referring to oil and gas production (around 135mbpd oil equivalent). However Shell also talks of: *an "easy oil" supply gap*, and say that *by 2015 growth in supplies of easy oil and gas will no longer match the pace with which demand is growing*.

Perhaps the most interesting inclusion is Shell's criticism of the IEA World Energy Outlook 2007. The IEA's reference scenario calls for oil supply to increase at 1.3% per year to 2030. Shell suggest that this may appear reasonable as for the last 25 years supply has grown at 1% per year but go on to point out that non-OPEC growth provided more of this past growth than OPEC did. With non-OPEC production *"levelling off the IEA seems to assume a growth rate of OPEC production that is double or more the rate we saw in the last 25 years. This is not likely to happen"*.

It is a refreshing change to see an oil major publicly criticising IEA forecasts in this way.

Skrebowski's analysis behind this report, whilst predicting a peak within five years is likely conservative. The IEA World Energy Outlook 2008 report due to be released Nov 12th but seen last week by the Financial Times prompted them to write:

> Without extra investment to raise production, the natural annual rate of output decline is 9.1 per cent, the International Energy Agency says in its annual report, the World Energy Outlook, a draft of which has been obtained by the Financial Times.
>
> The findings suggest the world will struggle to produce enough oil to make up for steep declines in existing fields, such as those in the North Sea, Russia and Alaska, and meet long-term demand. The effort will become even more acute as prices fall and investment decisions are delayed.
>
> The IEA, the oil watchdog, forecasts that China, India and other developing countries' demand will require investments of $360bn (£230bn) each year until 2030. The agency says even with investment, the annual rate of output decline is 6.4 per cent.

This 6.4-9.1% decline is more aggressive than the 4.0-4.5% decline rate used in the Taskforce's report.

Scenarios

The report distinguishes four qualitative global oil supply scenarios; growth, plateau, descent and collapse.

Growth represents the position of ExxonMobil and Cambridge Energy Research Associates (CERA) which see production growing well beyond 100mbpd. Plateau represents Shell's position, a plateau starting around 2015 and continuing into the 2020s. Descent represents the position of Skrebowski with a decline setting in within five years and collapse represents steep decline as some - possibly many - aged supergiant fields collapse.

These scenarios are then mapped onto the UK with the required "Annual rates of oil replacement" calculated – and compared with the climate change scenario of achieving an 80% cut in CO_2 by 2050. Critically both descent and collapse, the two scenarios thought most likely (descent more so than collapse), call for faster "replacement" than climate change. I presume it is this result that led to the taskforce to call on Government to *"re-prioritise peak oil – as the impacts are more likely to arrive first – before climate change."*

Conclusion

In conclusion, this is a ground breaking report, not so much for its content as for the companies behind it. Shell's inclusion is a very positive development. These are not a *"beleaguered small minority of voices"* but billion dollar, international companies, employing tens of thousands of people sounding the alarm bell.