



IEA Economist Warns about World Oil Supply

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The UK newspaper the Independent today is featuring an article titled [Warning: Oil supplies are running out fast](#). The article is based on an interview with Fatih Birol, Chief Economist of the International Energy Agency.

In a stark warning to Britain and the other Western powers, Dr Birol said that the market power of the very few oil-producing countries that hold substantial reserves of oil – mostly in the Middle East – would increase rapidly as the oil crisis begins to grip after 2010.

"One day we will run out of oil, it is not today or tomorrow, but one day we will run out of oil and we have to leave oil before oil leaves us, and we have to prepare ourselves for that day," Dr Birol said. "The earlier we start, the better, because all of our economic and social system is based on oil, so to change from that will take a lot of time and a lot of money and we should take this issue very seriously," he said.

"The market power of the very few oil-producing countries, mainly in the Middle East, will increase very quickly. They already have about 40 per cent share of the oil market and this will increase much more strongly in the future," he said.

There is now a real risk of a crunch in the oil supply after next year when demand picks up because not enough is being done to build up new supplies of oil to compensate for the rapid decline in existing fields.

The article goes on to say:

The IEA estimates that the decline in oil production in existing fields is now running at 6.7 per cent a year compared to the 3.7 per cent decline it had estimated in 2007, which it now acknowledges to be wrong.

A change in the decline rate on existing fields from 3.7% per year to 6.7% per year is a big change. If the IEA made such a big error in the past, how certain is it of its current decline rate estimate?

If demand stays at the current level, Dr. Birol indicates that the equivalent of four Saudi Arabias

will be needed; if it increases to the level of forecast demand, the equivalent of six Saudi Arabias will be needed.

Dr. Birol indicates the future tightness in oil supply is expected to affect the economy. According to Dr. Birol:

Many people think there will be a recovery in a few years' time but it will be a slow recovery and a fragile recovery and we will have the risk that the recovery will be strangled with higher oil prices.

Many people assume we will have a V or U shaped recovery, or perhaps even a W shaped recovery. But if oil supply is in tight supply, it will limit the ability of the economy to recover. In fact, on The Oil Drum, some of us [have been saying](#) such tightness is likely to cause debt defaults, similar to what we have been seeing recently. This will definitely not be good for recovery.

The article also notes that the IEA is now saying:

Oil production has already peaked in non-Opec countries and the era of cheap oil has come to an end, it warned.

The article further mentions that the IEA thinks world oil production will peak "perhaps by 2020". The crunch in oil supply is expected to come before then because demand after 2010 is expected to exceed dwindling supplies.



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