



Time and the Latest CERA Report: Why 2030 for the Peak?

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One of the features of many models that are used to predict future events is that they focus on target years. Decadal years are the most common target years, so that whether talking of climate or the amount of oil or natural gas available, models focus on, for example, the amount that will be available in 2030. The problem with this approach is that it leaves the public to think that a problem is not yet serious. For example if the prediction is that the production of oil will only be 75 mbd, in 2030 then there is an implication that until 2030 that the situation will remain fine.

However the world does not reach those levels by continuing in the business as usual mode for the next 21 years, and then suddenly have production drop off a cliff one Friday night. Rather it is a problem that inexorably will grow, year on year, between now and then. I was struck by this thought as I looked through the latest comments from CERA/IHS on their view of the future of oil supply. Their view, as we have come to expect, is an optimistic one, and though we are not still living in the days of \$30 oil that they had, at one time predicted, it is worth looking into so as to provide some explanation of the difference between their view and mine.

Let me begin with a reason why I tend not to be immediately and totally swayed by the thinking behind the CERA report, and their conclusion that:

Global oil productive capacity will grow though 2030 with no evidence of a peak of supply before that time.

It has not been that long since we were assured that production of oil from Mexico would be maintained at [levels of 4 mbd](#) through 2015. [In 2005](#) we have:

CERA said that oil from non-conventional sources would widen to 35% of capacity in 2015 compared with 10% in 1990. The research points to growth in output from ultra deepwater drilling in the U.S. Gulf of Mexico, Brazil, Angola and Nigeria; 250% more heavy oil production capacity from Canada and Venezuela; and the expansion of condensate and natural gas liquids to 23 million barrels per day from 14 million barrels per day currently.

The EIA is anticipating that Mexico will produce an average of 2.9 mbd in 2009, [falling to 2.7 mbd in 2010](#). And the latest chart from CERA ([downloadable at their site](#)) shows a much reduced

CERA has, unfortunately, not only continued to shine an overoptimistic light on future production, but has also tended (as sadly it has also done in the past) to gloss over some of the problems – vide:

Though a peak in global production is not imminent, there are major hurdles above ground to negotiate.

These surface hurdles no doubt include the minor details as to how to get significantly more production out of Iraq. It is all well and good to read [reports](#) such as:

Iraq is planning to increase its production capacity to approximately six million barrels per day within 80 months, following the signing of service contracts with a number of major international oil companies. This is in addition to the other agreements which are expected to be reached by next December, whereby Iraq's production capacity may be increased to reach around 10 million barrels per day at the end of the next decade, compared to 2.5 million barrels per day at present. The overall cost that will be borne by the international companies investing in developing the Iraqi oil fields will amount to about one hundred billion dollars. Needless to say, these agreements are considered to be a historic event (both economically and politically), not only for Iraq, but also for the oil industry itself in the Middle East, and for the global oil industry.

Adding 7.5 mbd to existing world supplies would certainly go a substantial way toward meeting the existing and well documented declining production from so many of the major fields of the world. But is that target a realistic one – let me sound perhaps a little more cynical than some and raise a slight modicum of doubt. While it is nice to be optimistic, the reality still fills the headlines of too many papers and news reports.

Of course, it is expected that these companies will face some obstacles and delays as a result of terrorist attacks against their employees and sabotage against its installations. Also, the need arises to increase export capacity that can accommodate the ensuing increase in production, in addition to attracting a sufficient number of professionals and technicians to work in Iraq under the current circumstances, and procuring the necessary machinery and equipment on time. Despite all these potential obstacles, the delays in these projects are not expected to be significant, since similar experiences in other oil producing countries have shown that such delays only cost a relatively limited and not long amount of time.

Thus even though there are some [big players moving into that game](#), it is a little premature to be optimistic.

In other aspects of the report the average field decline rate, which CERA ties to 4.5% - but includes fields with rising production in the calculation, masks the reality of an increasing level of

decline in fields that are past peak. As we saw with Cantarell, post-peak collapse can come more rapidly and severely than earlier forecast.

At the same time the move to produce alternate fuels, such as cellulosic ethanol for vehicles, seems to have hit more technical and economic snags that may well considerably delay the target production that has been anticipated for this alternate fuel, feeding into an overall reduction in “other” fuels beyond the level that CERA still optimistically holds to (raising unconventional liquids, in their view, from 14% of global capacity today to 23% by 2030).

It is notable that in the version of the report I got, while CERA lists three scenarios, Asian Phoenix, Global Fissure and Break Point, it only briefly mentions the assumptions and impacts that the different scenarios will have on both demand, and thereafter supply. Given that I [noted just recently](#) that China is signing up for [another 1 mbd](#) delivery from Saudi Arabia, and that sales of cars in both countries are rising at significant rates, one can anticipate that that market is likely to develop into the Asian Phoenix that one might imagine is presaged by the title of the CERA scenario.

The growth of that new market is recognized with the opening of the new port of [Kozmino by Russia](#) with the potential for shipping up to 1 mbd of oil, with China as a major customer. (Which raises a question for another post on which customers will lose out as China gains.)

But to now get to the nub of my point; this is that there is already a changing market and demand for oil and its products that is developing in the short term. The longer term view of potentially available resources that are not yet found, does not address the problem of how big a tap can be made available to meet demand over the next six years. There are serious questions, within that time frame, of the ability of some of the largest fields in the world to sustain production at their current levels.

Longer term forecasts will be forgotten long before they are called to face reality. Unfortunately the optimism they project can lead people astray in the shorter terms, where the conditions have been glossed over.



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