



## Peak Oil: The Mother of All Risk Management Scenarios

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*This is a guest post by [Joseph Sullivan](#). Joseph is a management and strategy consultant in Madrid, Spain. This is a link to his [blog](#).*

Risk Management like [sustainability](#) has become one of the buzz phrases and hot topics in business and management in general. According to [Wikipedia](#):

**Risk** is defined in ISO31000 as the effect of uncertainty on objectives (whether positive or negative). **Risk Management** can therefore be considered the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities. Risks can come from uncertainty in financial markets, project failures, legal liabilities, credit risk, accidents, natural causes and disasters as well as deliberate attacks from an adversary. .

Strategies to manage risk include transferring the risk to another party, avoiding the risk, reducing the negative effect of the risk, and accepting some or all of the consequences of a particular risk.

By definition, risk management involves the methodical identification and analysis of events that may or may not happen. The responsibility of present and future business leaders – as well as industry and government leaders of course – is to ensure the sustainability of the endeavors they oversee. **So, shouldn't peak oil be considered a risk management scenario?**

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## The Need to Consider the Possible Impact of Peak Oil

During a recent discussion on the topic of peak oil, the dean of one of America's most prestigious business schools [who asked to remain anonymous], said

“...leaders should bring somebody in to their organizations right away to talk to them about this...if only to say they've had a thorough look at the subject and dismiss it. This is something that must appear on the radar screen and be addressed.”

Then, after study and analysis they can either write it off as an acceptable risk or act accordingly to minimize its effects...or even act to monopolize on the opportunities that may arise as a result of it.

## Governmental Response

There is evidence that at least some federal governments have identified (and have begun addressing) peak oil as a significant risk management scenario. They may be choosing to keep a low profile about their recognition and handling of the subject for the sake of order and national security, however.

The [actions of China](#) represent an exception and indicate that China is adopting an openly aggressive strategy by gobbling up resources at every turn. China has been building its crude oil reserves, completing 102 million storage facilities while at the same time, nailing down 11th hour deals in late December with both [Iraq](#) and [Venezuela](#). Another indication of China's sense of purpose (and urgency) include an oil pipeline linking Russia's far east to China's northeast, set to start operation by the end of 2010. The pipeline would transport 15 million tons of crude oil annually. In short, China is unabashedly leading the way in terms of resource acquisition as a means to mitigate the effects of peak oil and the subsequent decline in supply.

Local and community governments--with more manageable sized constituencies--remain largely unaware of the peak oil scenario. Following the lead of [Portland, Oregon](#), several cities have done some homework in evaluating the risk of peak oil and pulling together a plan, including major cities like [San Francisco](#) – but they are miserably few considering the number of towns and cities worldwide that ought to be leveraging each other's risk evaluation and planning methods at least on a small scale or in clusters. This is an unnecessary risk exposure since they could play a key role in creating a responsible level of awareness and developing mitigation measures – IF they deem such actions necessary after a proper risk management analysis.

## Business School Response, or Lack Thereof

Business schools, the very institutions where present and future leaders are formed, have also been slow to include peak oil in their many leadership programs about challenging times and sustainability. At a minimum and for the sake of credibility, the topic should appear as a "*what if*" leadership challenge in case-studies.

There is a particularly high representation of executives/business leaders from certain industries such as healthcare & medicine [pharmaceuticals] in the leading business schools around Europe and the US. Are these leaders and their teachers informing themselves and each other about the peak oil "blip" currently blinking on the radar screen? Judging from the on-line syllabi of current Executive Management & Leadership programs, the answer is No.

There is no evidence of programs or even case studies that address hypothetical scenarios such as:

1. A much more serious natural gas supply disruption than recently took place in Great Britain takes place. (Natural gas is produced with oil, and in some parts of the world, may face disruptions as well.) How might a business plan for such a disruption? As supplies get tighter, the chance of disruptions rises, for both oil and natural gas.

2. An acute oil price spike occurs, similar to or greater than the one of July 2008. What are the

potential risks and mitigating measures for the aviation and general transport industries?

3. The planned technologies to replace oil fail to scale up quickly enough. This seems like at least a possibility, given the high cost of wind, solar, biofuels, and electric cars. What alternative approaches would business leaders suggest to minimize the effects of declining supply ? These approaches might be different for different industries, such as healthcare, automotive, and food & agriculture.

These [and other similar] business case scenarios should clearly be among the "war games" at the B-Schools, the institutions of higher learning whose collective mission is to shape present and future leaders.

The title of the executive leadership program at one of Europe's most prestigious business schools is – "Creating global leaders capable of taking on the world's greatest challenges" And I ask...Is the mother of all risk management scenarios included amongst the challenges?



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