



## Peak oil hits new heights

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Topic: [Miscellaneous](#)

There are a few items in the press this weekend worth noting - first off John Garnaut in the SMH with a high profile peak oil article - "[Peak oil hits new heights and the view is not pretty](#)". See below the fold for a great interview with Oil Search CEO Peter Botten on peak oil as well.

The problem is simple, there is not enough to go around. China's devastating earthquake gave the people of Sichuan an early taste of a world that is running out of fuel.

Thousands of families slept in their cars outside petrol stations because the province's oil infrastructure had been disrupted and its remaining fuel supplies diverted to the rescue effort. Truck drivers loitered patiently for local officials to raise their diesel rations beyond a paltry 100 yuan (\$14), while taxi drivers refused to take reporters from Mianyang city to the earthquake disaster zone because they could not get enough petrol for the ride.

Kevin Tu, an energy consultant in Canada, says the earthquake and Chinese Government efforts to build huge strategic reserves in time for the Olympic Games in August will have a "huge impact" on the international market.

And yet oil demand in China and other developing countries is growing so fast, and the international market is so stretched, that international oil prices smashed through to new records this week. Sydney petrol stations were charging as much as \$1.60 a litre, but there may be much worse to come. Australian petrol refineries are yet to receive oil that was bought at the new record prices.

On Thursday the world benchmark oil price hit \$US135 a barrel. It has more than doubled in a year and is now higher than during the oil supply shocks of 1974 and 1980, even after adjusting for inflation.

Many politicians and the OPEC cartel of oil-exporting countries blame hedge fund speculators for pushing up the price. But the reality is probably less complicated and more serious.

"The only way to [artificially] drive prices up would be to physically hoard more oil, but stocks are at an all-time low," says Peter Downes, a former Treasury official at the Centre for International Economics in Canberra.

The developed world is adjusting to a world of tight oil supply and high petrol prices. Australians are driving more efficient cars and drifting back to public transport. Even the United States, which consumes a quarter of the world's oil, reduced its oil

consumption in 2006.

The International Monetary Fund's World Economic Outlook shows the rich countries that make up the OECD reduced oil consumption in each of the past two years. Japan, the world's efficiency leader, dramatically reduced petrol consumption in the 1970s and still managed to reduce oil consumption by almost 10 per cent over the past decade. But energy efficiency improvements in the rich world are being swamped by the developing world's rush towards rich-country living standards. ...

Traditionally, economists have been sceptical about the idea of "peak oil" - a point at which oil production will necessarily decline - believing that rising prices will drive oil companies to do what ever it takes to extract more oil from previously inaccessible places, such as Canadian oil sands or Brazil's offshore discoveries, kilometres beneath the seabed.

And yet oil prices have risen seven-fold in five years and there is little in new production or discoveries. Existing oil fields, meanwhile, are running out faster than anyone predicted. The further ahead that analysts look, the worse the problem gets. Investment bank Goldman Sachs now expects oil prices to average \$US141 in the second half of this year, before rising as high as \$US200.

Tellingly, this week the price of oil to be delivered years into the future rose three times as fast as prices for delivery this July. On Friday it cost more than \$US145 to buy oil for delivery in 2016 - up an astonishing \$US19 in just one week. While OPEC oil producers are deliberately curtailing production, they, too, will face physical limits.

Downes predicts world oil production will peak between 2020 and 2030. Some outlying commentators say the moment will arrive even sooner. Germany's Energy Research Group says the phrase "peak oil" is grammatically misleading because oil production has peaked. ...

The second story worth highlighting is from the "Kohler, Gottliebsen, Bartholomeusz" report at the Business Spectator, which has a long [interview with Peter Botten](#) from Oil Search, discussing whether or not production has peaked.

On May 22, oil and gas explorer Oil Search and its partners ExxonMobil, Santos and AGL Energy signed an agreement with the Papua New Guinea government that allows the companies to start engineering work on a \$US11 billion liquid natural gas project in that country. While a final decision on whether to go ahead with the project is yet to be made, the agreement with the PNG government is seen as an important milestone for Oil Search.

Robert Gottliebsen: Peter, thanks for joining us. Do you believe that the peak oil forecasts of a looming world oil crisis are now starting to come into play?

Peter Botten: I don't think there's any doubt that supply/demand scenarios are extremely tight. For the first time ever you see a significant decline in production out of Russia for this year and you see the Middle East frankly struggling to maintain, let alone, increase its production. Put that against the backdrop of an average decline rate across the world of the world's oilfield of about 11 per cent and there is no doubt that the fundamentals of supply and demand will remain tight. I do believe that we are going to struggle to continue to materially increase production based on an outlook for demand growth.

RG: So unless demand falls we could see an oil price two and three times the present level.

PB: Some people would say that's probably a matter of 'when' rather than a matter of 'if' and it really is a question of how do we approach energy usage in a slightly different way, more efficient ways. Technology can help, but broadly speaking, unless there are significant discoveries around the world and there are people and money and time to develop those discoveries which I think will be a struggle, certainly there will be continued pressure in the medium and long term on oil prices.

RG: So you believe that the reason OPEC's refusing to lift production is simply that they can't do it?

PB: I genuinely believe they have no capacity to do it. Based on our information out of the Middle East and from where we work ourselves, they're struggling. Saudi Arabia has got enormous development programmes planned and in part underway, but like everybody else, they're struggling to find people, struggling to find equipment and it all takes time.

When you look at production performance out of some of the key fields in the Middle East, you do start to question the potential reserves that may be there. Not in a dramatic way, but certainly the reserve statements that have been done generally by the Middle East countries has been somewhat less than Society of Petroleum Engineers classification. While their fields are giant, I think some of the complexities are coming home now when they try and turn up the production tap. ...



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