

Peak Oil Update

Since writing three articles on Peak Oil for Cityscape, which appeared in the August, through October 2006 issues, and an update a year ago (January 08), several more things have happened.

Most notable is the meltdown of the global financial system..Commodity prices have fallen, with traders now betting on recession causing lower demand. The effect on the price of crude oil has been dramatic, with oil now (mid December 2008) trading at about \$40 a barrel, compared to \$147 a barrel in July. Figure 1 shows the movement in the price of crude on the New York Exchange since mid-2004. The analysts who were predicting a rise to over \$200 a barrel earlier in the year are now predicting a fall to under \$25 a barrel, thereby showing that “analysis” is just trend projection.

The world will go through a series of transitions as the time profiles of oil demand and oil supply diverge. The first transition, which an Iranian expert said (in 2003) would last from 2005 to 2009, would be relatively benign, but at the end of it we can expect to see

- higher oil prices
- problems in suburbia
- car makers and the aviation industry in trouble
- an increase in armed conflict over resources (Georgia, anyone?)
- looming world recession.

Sound familiar ? The thing not foreseen was the speed with which the US credit squeeze would spread into the banking sector, making the availability of cash or credit the determining factor for oil demand rather than the physical supply.

What does this mean for Australia? The Australian Senate Inquiry in 2006 was told that there were two indicators to watch – oil production and oil price. While the price may give the impression that peak oil is one thing we do not have to worry about, the news on oil production is bad.

For the last few years global production has been flat and for Australia the oil reserves of the Northwest Shelf will join the Bass Strait fields as a depleted resource by 2016. Our dependence on net imported oil will rise from 23% in 2005 to nearly 80% by 2021.

It is the price of petrol that concerns the average motorist, and here the exchange rate is also a determinant. Despite a fall in oil price of 70% on the New York Exchange, the urban motorist in Australia has seen the petrol price fall by under 40%, mainly because over the same period the Australian dollar has slumped from being worth 98 US cents to about 65.

The price of oil will remain volatile. The recent spectacular rise and fall in price undoubtedly made someone richer, but as the December 08 ASPO Newsletter comments :”One is led to conclude that the entire Stock Market, including especially the oil market, has become a thoroughly debased speculative institution ...”.

The present low price of crude oil is inhibiting the development of alternatives. For instance, the oil in the Canadian tar sands, often included in reassuring official estimates of global reserves, is said to require a price of at least \$90/barrel for its extraction to be economically viable.

A traditional response of recession-confronted governments is to increase public spending until things improve. This gives an opportunity for the transport sector, in particular, to redress decades of funding dedicated to the promotion of a car-dependent lifestyle, at the expense of public transport use, walking and cycling. If the infrastructure projects chosen to mitigate recession are mainly aimed at (voting) motorists, then the problem will not go away and will be harder to address next time.

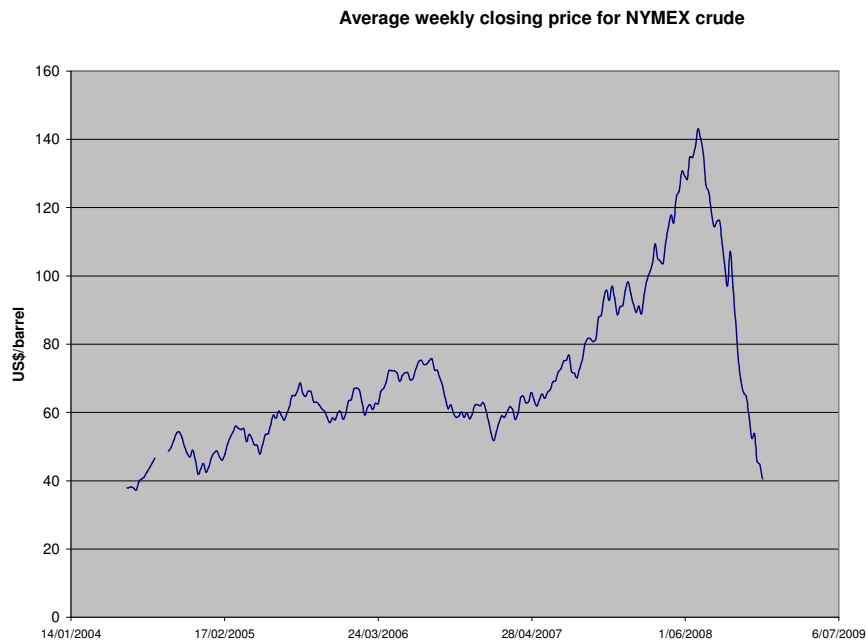


Figure 1: Nymex oil futures price mid-2004,- end 2008