

# Energy & Capital

## *Officials Wake Up to Peak Oil...But Not Enough to Tell You The Truth*

### **Part 1: The End of Peak Oil Denial**

*Friday, April 2, 2010*

**By Chris Nelder**

When I began writing about peak oil professionally in 2006, it was generally considered a tinfoil hat theory. The notion that oil production might peak around 2012, plus or minus, was only taken seriously by a few analysts who were considered extremely pessimistic.



Official forecasts had no cognizance of it whatsoever. All were confident that oil supply would continue to grow steadily to 130 million barrels per day (mbpd) and beyond, at prices that would be considered astoundingly cheap by today's standards. Oil companies rarely mentioned peak oil, and when they did, it was in a casually dismissive way.

But as time marched on, the cornucopian arguments fell one by one. My longtime readers have seen the story unfold, but for the benefit of new readers, here's a quick summary.

Forecasts grew more and more pessimistic as it became apparent that regular conventional crude supply had peaked at the end of 2004. Even as the biggest oil price spike in history ensued from 2005-2008, crude production remained flat and unresponsive.

OPEC scaled back some of its development plans as costs soared. Non-OPEC production not only failed to deliver any actual increase, but began to decline. Forecasts were revised lower.

Corn ethanol boomed and busted, as it was revealed to be the net energy non-starter that serious analysts always knew it was. It also was suspected of adding pressure to food prices at a most inopportune time.

Unconventional production from oil shale and tar sands failed to grow as expected, as producers shied away from high-cost, low-production projects.

The International Energy Agency (IEA) finally included the depletion of mature fields in its analysis, and became increasingly shrill in its warnings about future supply.

A few current and former oil industry executives began making public statements about the diminishing prospects for new supply, and a few even acknowledged that it would be hard to increase production much beyond current levels.

Then high oil prices proved intolerable to an economy stretched thin by the bursting of the bubbles in the real estate and financial sectors.

Yet official recognition of the peak oil threat remained muted, couched in warnings about "adequate investment" and blithe assertions that demand would soon peak, averting any supply shortage.

Source 1: <http://www.energyandcapital.com/articles/the-end-of-peak-oil-denial/1111>

Source 2: <http://www.energyandcapital.com/articles/governments-peak-oil-part-2/1122>

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All that seems to have changed in the last month. A sudden deluge of reports and summit meetings suggest that the oil industry and energy officials are now taking peak oil very seriously indeed.

### **UK Task Force on Peak Oil: Shortages by 2015**

The first bombshell was actually dropped on February 10, when the UK Industry Task Force on Peak Oil and Energy Security issued a report called “The Oil Crunch: A wake-up call for the UK economy.” I only mentioned it in passing at the time, but it was a stern warning that “oil shortages, insecurity of supply and price volatility will destabilise economic, political, and social activity potentially by 2015.”

It only made the news because Sir Richard Branson personally endorsed it, but the fact that the task force comprised top UK executives and energy experts lent it enough weight to be rather widely circulated in the press.

The British government, including energy minister Lord Hunt, responded by staging a closed-door summit meeting with the taskforce on March 22. As the UK’s Guardian reported, the government intended to develop an action plan to contend with a near-term peak, and to “calm rising fears over peak oil.”

Veteran peak oil analyst and taskforce member Jeremy Leggett explained: “Government has gone from the BP position – ‘40 years of supply left, the price mechanism works, no need to worry’ – to ‘crikey’.” He urged the assembly to properly assess the risks of peak oil, and to immediately begin preparing for the end of globalization and an era of oil shortages in the West.

According to reports from attendees, the summit yielded some important conclusions:

- Peak oil is either here, or close enough.
- Prices will have to go higher as demand outstrips supply.
- Governments will be forced to intervene to maintain critical levels of oil supply, and limit volatility.
- Rationing measures may be unavoidable.
- Electrification of transport must be pursued in order to reduce demand.
- Communities will need to work quickly to reorganize around walking instead of driving, producing food and energy locally instead of importing, and generally try to reduce their need for oil.

However, the notion that peak oil will mean the end of economic growth, as I have argued, apparently fell on deaf ears. Still, the very fact that the government has engaged with the peak oil community and formed a parliamentary group to study the issue offers a sliver of hope that, at least in the UK, we’ll have some measure of consciousness about the issue and an idea of what to do about it as we drive off the peak oil cliff.

### **Kuwait Report: Peak by 2014**

The next was a report that surfaced around March 12. Three authors from the College of Engineering and Petroleum at Kuwait University had applied advanced mathematics to reserve and production data for the top 47 oil producing countries using a multi-cycle

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Hubbert model, which demonstrated a much better fit to historical data than single-cycle Hubbert Curve analyses.

The model estimates the world's ultimate crude oil production at 2140 billion barrels, with 1161 billion barrels remaining to produce as of the end of 2005. It forecast that world production would peak in 2014 around 79 mbpd. The annual depletion rate of world reserves was estimated to be around 2.1%.

The results weren't really news to the peakists, for they matched up quite well with the models of Colin Campbell, Jean Laherrère and other analysts who have warned about peak oil since 1995. What made this report interesting was that first, it was from Kuwait, and second, it brought a new level of mathematical rigor to the study.

The model indicated that non-OPEC production peaked in 2006 at 39.6 mbpd. It forecasts that OPEC production will peak in 2026 at 53 mbpd, up from 31 mbpd in 2005, with the majority of the increase coming from Iraq, Kuwait, and the United Arab Emirates. Then OPEC production is expected to decline to 29 mbpd by 2050.

### **Oxford Report: Reserves Exaggerated by One Third**

On March 22, another bombshell exploded in the press as former UK chief scientist David King and researchers from Oxford University released a paper claiming that the world's oil reserves had been "exaggerated by up to a third," principally by OPEC.

Their "objective analysis" showed that conventional oil reserves stand at just 850-900 billion barrels, not the 1,150-1,350 billion barrels that are officially claimed by oil producers and accepted by the politically influenced IEA.

They anticipated that demand could outstrip supply by 2014-2015.

In a statement that sounded like a direct echo of what peak oil analysts like me have been saying for years, co-author Dr. Oliver Inderwildi remarked, "The belief that alternative fuels such as biofuels could mitigate oil supply shortages and eventually replace fossil fuels is a pie in the sky. Instead of relying on those silver bullet solutions, we have to make better use of the remaining resources by improving efficiency."

Again, it was hardly a revelation. I detailed the "political reserves" additions of OPEC producers in 2007, when I was writing Profit from the Peak. But the fact that it was recognized widely in the press was a marked change from the past.

### **ConocoPhillips Gives Up on Growth**

On March 25, ConocoPhillips CEO Jim Mulva admitted that pursuing new oil reserves just doesn't pay. The remaining resources have become too marginal and too expensive, and the competition for them has become too intense.

Rather than keep slugging it out with bigger and better-funded players in pursuit of growth, Conoco has decided to sell \$10 billion worth of its assets over the next two years, all of them in the marginal category, and concentrate on producing its core assets.

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The proceeds will be used to buy back its stock, reduce its debt, and raise dividends—just as rival ExxonMobil has been doing for the last five years or so.

When I inferred in Profit from the Peak that the oil majors were spending vastly more money on buying back stock than investing in new exploration because reserves were getting too expensive and risky, veterans of the Street greeted the idea with extreme skepticism.

Now it's a plain fact. A Rice University study released in July 2008 found that the five largest international oil companies spent about 55% of their profits on stock buybacks and dividends in 2007, but only about 6% on new exploration and production. "Could we spend \$20 billion or \$25 billion [on exploration]? Absolutely," Conoco spokesman Gary Russell said at the time. "Could we do it effectively, in a way that provides ultimate value to our shareholders? Probably not."

Those of us who have been observing the trend for years greeted the latest Conoco comments with little more than a shrug, but it did get the attention of the laggard mainstream press.

In my next Energy and Capital column two weeks from now, we'll see how the U.S. Department of Energy is now considering the possibility of a decline in world liquid fuels production by 2015, and pick up a few more clues from the International Energy Forum held this week.

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### **Part 2: Governments Worried about Peak Oil**

*April 16th, 2010*

In the first part of this series, I reviewed a series of reports from March supporting the peak oil view, and warning that world oil production very well may go into terminal decline by 2015 or sooner. The sources included the UK Industry Task Force on Peak Oil and Energy Security and officials within the British government; researchers within the College of Engineering and Petroleum at Kuwait University; researchers from Oxford University; and ConocoPhillips, the third-largest oil company in the US.

On March 25, the U.S. Department of Energy (DoE) joined the officially worried, with a report in French newspaper *Le Monde* titled "Washington considers a decline of world oil production as of 2011."

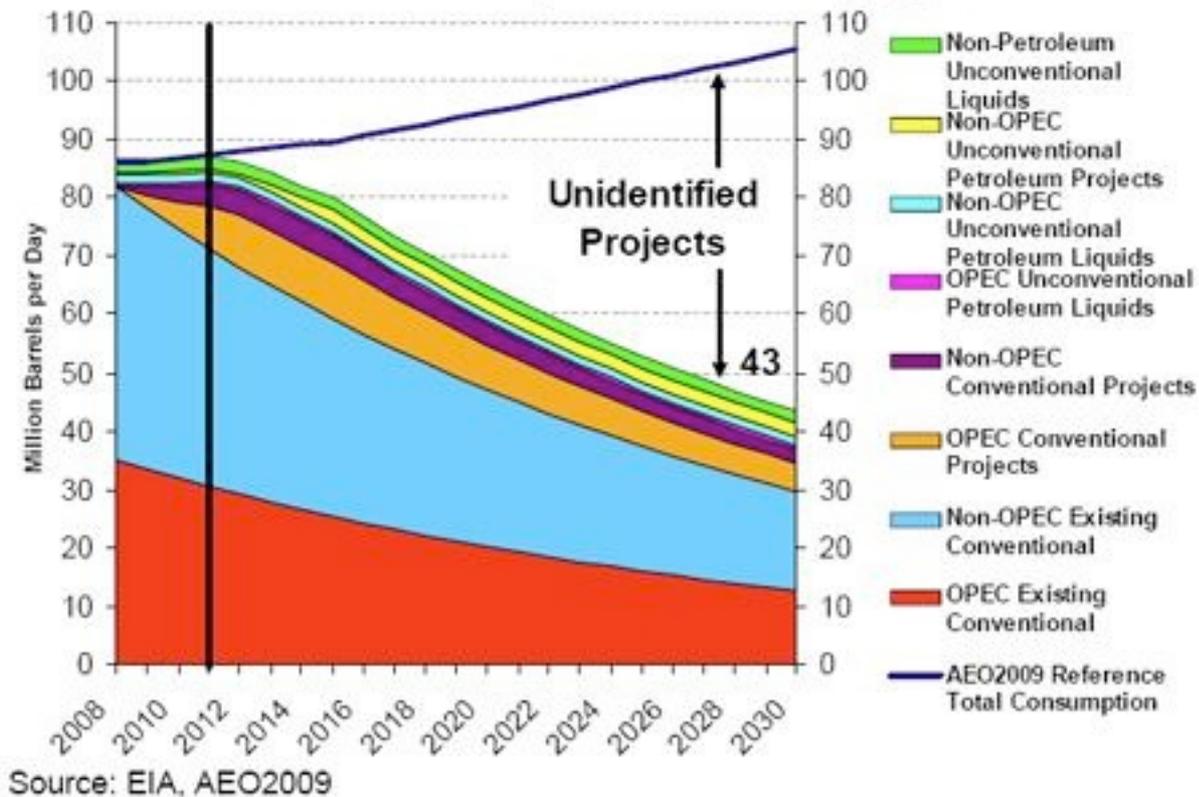
The author had pestered Glen Sweetnam, director of the International, Economic and Greenhouse Gas division of the Energy Information Agency (EIA), for details about a presentation he had given at a semi-public DoE round-table with oil economists in April 2009. How he got wind of it, I don't know, but I admire his persistence.

The zinger was this chart:

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### World's Liquid Fuels Supply



Source: Glen Sweetnam, "Meeting the World's Demand for Liquid Fuels - A Roundtable Discussion," EIA 2009 Energy Conference, April 7, 2009, Washington, DC

The implication was obvious: *The EIA has no idea how production could increase after 2012.* In the absence of these "unidentified projects," they expect global oil supply to decline by about 2% per year - from 87 million barrels per day (mbpd) in 2011 to 80 mbpd by 2015 - while demand rises to 90 mbpd.

**Within five years, then, there will be a 10 mbpd gap between supply and demand—roughly a Saudi Arabia's worth of production (currently 10.8 mbpd).**

(I should note that although Sweetnam's chart gives the EIA's *Annual Energy Outlook 2009* as the source, I found no such chart, nor even the data that might produce it, in my copy of that publication. I am unable to explain that discrepancy.)

The agency officially continues to lay any concerns about future supply at the feet of insufficient investment. In Sweetnam's interview with *Le Monde*, he put it this way: "a chance exists that we may experience a decline' of world liquid fuels production between 2011 and 2015 'if the investment is not there.'"

It's a weak position to take in the wake of the oil price blow-off of 2008. The world's developed economies simply cannot tolerate the high prices that would entice that investment (see "Peak Oil Demand.' Yes... But Not the Nice Kind"), and I'm sure the EIA knows it.

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You'd think the American media would have been all over the story, as it signaled a major about-face in the official U.S. position on peak oil. As recently as 2008, the EIA's base case scenario was for oil supply to rise through 2030, and not decline until 2090!

Yet five days later when I Googled it, there was *not one* story from a major domestic publication. Only blogs and the usual peak oil sites had picked it up.

In my seasoned judgment, the American media blackout is deliberate.

And speaking of media blackouts...

### **Media Blackout at the World's Biggest Energy Forum**

On March 30-31, the biennial International Energy Forum (IEF) summit took place in Cancun. Attendees at the world's largest energy forum included ministers from 64 countries, members of the IEA and OPEC, and other dignitaries.

In parallel, Cancun also hosted the International Energy Business Forum, attended by some 36 companies including the top executives of China National Petroleum Corp (CNPC), ExxonMobil and Royal Dutch Shell.

In short, the twin conferences were a Very Big Deal.

But when I searched Google News for stories containing the exact phrase "International Energy Forum" and published during the conference, it wasn't until the seventh page of results that I found any stories from major American media outlets, and those stories were strictly focused on specific issues like oil and gas prices. They said not a word about peak oil.

A journalist from the oil and gas media organization Platts explained what happened on his blog. All media were barred from the IEF conference room, and exiled to a press room where the presentations were shown on monitors with no sound. When reporters asked for sound, the monitors were turned off. All sessions were then declared to be private, and the reporters that had come from around the globe to cover the conference were simply shut out.

According to journalist Matthew Wild, the presentations included one from PFC Energy titled "Unpacking Uncertainty: Investment Issues in the Petroleum Sector."

The document reviews three forecasts for oil supply: The IEA's, which shows it reaching 109 mbpd by 2030; OPEC's, which expects it to reach 111 mbpd; and PFC's own, which expects supply to peak around 2020-2025 at 95 mbpd, then decline to 90 mbpd by 2030.

Although it sees the decline of mature fields proceeding at a slower rate than the IEA, PFC Energy still believes it will be "rapid enough to produce a world energy picture that differs vastly from previous long-range energy assessments," and goes on to explain:

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*This is not a world of "peak oil" where global hydrocarbon potential is exhausted, but rather of peak production, where the petroleum industry's ability to continue to increase-or even maintain-production of conventional oil (and eventually gas) is constrained. Exploitation of unconventional oil will provide additional liquids, but in all probability only at increasingly higher costs, and it will depend on significant investments to develop appropriate technologies to convert today's resources into tomorrow's reserves.*

*The exact timing of both the plateau and onset of irreversible decline will be influenced by the factors that determine long-term changes in supply and demand. Nevertheless, the challenge is coming, and this emerging world of limited conventional production will require major adjustments on the part of both consumers and producers.*

The phrasing of the first statement is curious. Serious observers know that "peak oil" has *never* meant the exhaustion of hydrocarbon potential, and has *always* meant the peak of production flow rates. I covered a presentation by Michael Rodgers of PFC Energy at last year's peak oil conference, so I must believe that PFC Energy knows better than to characterize peak oil that way and simply chose to do so for the appeasement of its IEF audience.

In any case, we now know that the world's top energy ministers have seen a serious presentation on peak oil, and heard the warning about its seriousness, albeit a somewhat soft-pedaled one.

Most reports on the conference featured the theme that better data and transparency on reserves reporting is needed - a bell that peak oil mavens like Colin Campbell have been ringing for over a decade. Without it, the world is in the dark about the true future of oil supply.

To reinforce that point, IEA head Nobuo Tanaka told the *Financial Times* at the conference that it has invited China to join the IEA because global oil demand has shifted to the East. "Our relevance is under question," he worried, as the opacity of data on Chinese oil demand and inventory threatens to blind the agency to the true state of the world's oil markets.

Another key theme was an evident widespread concern about the volatility of oil prices. By the end of the conference, IEA, OPEC, and the IEF were expected to announce a "joint action plan" to control volatility and ensure that prices remain stable enough to encourage new production.

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While the IEF was under way, the chairman of the Intercontinental Exchange (ICE) told *Reuters* that blaming speculators for price spikes was a "crutch" used to avoid looking at the realities of oil supply and demand. As I explained in [July 2009](#), traders have turned to the ICE to skirt the stricter position limits on the NYMEX. The Commodity Futures Trading Commission (CFTC) has now proposed new regulations to limit the influence of speculators in the energy markets, which are up for public comment until April 26.

### **You (Still) Can't Handle the Truth**

By any measure, March was a watershed month for the truth about peak oil.

Estimates on the timing of the peak have narrowed dramatically, and now center on the 2012-2015 time frame. The range of estimates on the peak rate of production remain a bit broader and shrouded in caveats, but they are rapidly drawing closer to 90 mbpd. And the globally averaged, post-peak annual decline rates are settling in around 2%.

In other words, industry and governments appear to be coming around to what my call has been all along: 2012, at 90 mbpd or less, then declining at about 2.5% per year.

Now we know that the oil and gas industry, as well as the world's governments, are not only aware of the peak oil threat... they too are deeply worried about it.

Worried enough to huddle behind closed doors, away from the press. Worried enough to formulate plans to control price volatility. Worried enough to agitate for more transparent data. Worried enough to begin planning for a future of relentlessly declining energy.

But not worried enough to tell the American people the truth... not just yet.

