
Is the world's oil running out fast?

By Adam Porter

at the Peak Oil conference in Berlin

If you think oil prices are high at \$40 a barrel then wait till they are four times that much.

How will you pay to run your car? How will you get the children to school? How will you heat your house? How much will transported food go up in price? How will we pay for plastics, metals, rubber, cheap flights, Simpson's DVDs, 3G phones and everlasting economic growth? The basic answer is, we won't. This is the message from the Association for the Study of Peak Oil (ASPO). The group of oil executives, geologists, investment bankers, academics and others has been warning the world of high oil prices, and the ensuing fallout, for some years now.

The end of cheap oil.

It includes a diverse range of oil industry insiders. People like Ali Bakhtiari, head of strategic planning at Iran's National Oil Company (NOIC), Dr Colin Campbell, a former executive vice president of Total-Fina, and Matthew Simmons, an energy investment banker and adviser to the controversial Bush-Cheney energy plan. They are united by one idea, that global oil production is about to peak, which in turn will signal the permanent end of cheap oil. And they warn that this is the foundation of the current rise in oil prices.

Who hurts when prices explode?

"Oil is far too cheap at the moment," says Mr. Simmons. "The figure I'd use is around \$182 a barrel. We need to price oil realistically to control its demand. That is because global production is peaking." "If we price oil correctly," Mr. Simmons says, "it could give us time to find bridge fuels, fuels to fill the gap between an oil economy and a renewable economy. But I don't see that happening." The adherents of the peak oil theory warn the

decline of world oil output will force oil prices higher for good, and that the knock on effects could be catastrophic. "In my opinion, unfortunately, there will be no linear change," says Iran's Ali Bakhtiari. "There will only be sudden explosive change." "The people who will be least affected will be the super poor, who already have no access to energy, and the super rich who do not care if oil is \$100 a barrel." "It is everyone who is in the middle who will be hurt the most," says Mr. Bakhtiari. "When the crisis comes there will be enormous changes."

Oil rationing?

Much of ASPO's predictions stem from the calculations of Dr Campbell. His work on oil reserves has long suggested that many official oil data are either flawed estimates or at worst downright lies. Scandals like the 23% of 'lost' reserves at Royal Dutch Shell have helped to boost interest in his work.

False reserves threaten the security of energy supply, just as do bombs under pipelines. Dr Campbell's conclusion: oil production and consumption should be regulated by governments. "Many reserve figures are highly questionable," says Dr Campbell. "Many great oil fields are increasingly old and inefficient. But I don't think oil is easy to produce with a sniper behind every palm tree." "The way to increase energy security is to reduce demand," he says.

'Difficult times'

At ASPO's recent conference in Berlin, companies such as BP and Exxon and men such as Fatih Birol, chief economist of the International Energy Agency, began to talk to the proponents of the peak oil theory. Whilst they may not agree with Dr Campbell's theories, their attendance highlighted ASPO's emerging importance in the oil debate. In public, Mr. Birol denied that supply would not be able to meet rising demand, especially from the buoyant economies in the USA, China and India.

But after his speech he seemed to change his tune. "For the time being there is no spare capacity. But we expect demand to increase by the fourth quarter (of the year) by three million barrels a day." He pinned his hopes for an increase in production squarely on troubled Saudi Arabia.

"If Saudi does not increase supply by 3 million barrels a day by the end of the year we will face, how can I say this, it will be very difficult. We will have difficult times.

They must invest.

" Can Saudi deliver? But even Mr. Birol admitted that Saudi production was "about flat". Three million extra barrels a day would mean a huge 30% leap in output in just a few months. When BBC News Online followed up by asking if this giant increase in production was actually possible rather than simply a desire he refused to answer. "You are from the press? This is not for you. This is not for the press." Asking other delegates - admittedly supporters of the peak oil theory - whether such a steep increase was feasible, the answers were unambiguous: "absolutely out of the question," "completely impossible," and "3 million barrels - never, not even 300,000." One delegate laughed so hard he had to support himself on a table. Some recent figures tend to back up ASPO's outlook. North Sea production is declining at an increasing rate, having peaked in 1999. Not at the predicted flat rate of decline of 7%, but gradually accelerating from 7% to 8.5% to 11%.

And the number of major new oil fields discovered around the world fell to zero for the first time in 2003, despite an obvious increase in technological expertise.

"We need transparency with the figures," says Dr Campbell.

"This avoids profiteering from shortages, the collapse of poor countries and it will stimulate alternatives."

"Consumer countries need to be able to audit fields, but at the same time 'flat earth' economists who believe in endless growth need to change their ideas." And Dr Campbell has a dire warning: "If the real figures were to come out there would be panic on the stock markets, in the end that would suit no one."

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