

Ferguson: Energy Matters

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What, Me Worry About Global Oil?

A new report claims that the world has plenty of oil and pooh-poohs experts who believe otherwise. The media were only too happy to play up the conflict. Lost in the reviews, however, was any mention of the underlying assumptions. It's worth taking a look at them before we decide that fuel-efficient cars are a commie plot.

The latest report by the respected Cambridge Energy Research Associates (CERA) contradicts the "peak oil" theorists who predict an early decline in the production of conventional crude oil.

In a nutshell, production of crude oil or almost any other nonrenewable natural resource is expected to increase until approximately half is used up. Subsequently, production decreases, resulting in a chart with a peak somewhere around the middle.

Thus, if you know how large "ultimate" oil production will be, you expect the peak to occur when half is consumed. This leads to arguments about how much oil there is.

Pessimists believe that about 2 trillion barrels of oil will eventually be produced. Since we have already extracted and burned about 1 trillion barrels, the pessimists expect a peak in oil production to occur any day.

Optimists, including CERA, claim that there is much more oil to be found. If so, the peak in production would not occur for several decades.

But there are several wild cards in this game. For example, there are remote areas of the world where we know little about how much oil there is. A recent discovery of oil more than five miles deep under the Gulf of Mexico was touted by CERA as opening a whole new region to oil development.

Others have reason to believe that such ultra-deep resources will not amount to much. How much oil can be found in the Arctic is another point of disagreement.

But the biggest difference is what gets counted. CERA assumes that "unconventional" oil resources will be widely available in the near future. It assumes that by 2020, one-fifth of the world's oil will come from unconventional resources such as shale, tar sands, and other "enhanced" recovery technology. Perhaps.

I have always believed that the pessimists' theories were overly simplistic. In my view, the CERA assumption that large amounts of conventional oil resources will smoothly be replaced by unconventional is equally simplistic.

What matters is the price of liquid petroleum fuels such as gasoline and diesel. The important question is not "How much oil is there?" The real question is "How long can the world continue to increase consumption before prices go through the roof, wars are fought to ensure supplies, and the global economy goes haywire?"

I agree with CERA that the pessimists have underestimated the role that unconventional resources will play. However, I disagree with the CERA assumption

that replacing conventional oil - which can simply be pumped out of the ground - will be cheap and easy.

Getting liquid fuels from shale, for example, will be anything but easy. The tar sands in Alberta require enormous amounts of capital and natural gas to turn that gunk into synthetic crude oil. The most recent proposal is to build dozens of large nuclear power plants and use the electricity to heat up many cubic miles of shale-bearing earth and melt out the oil.

Are these guys kidding?

My prediction is that the global economy will be destabilized by high oil prices well before significant quantities of oil from shale become a reality.

President Bush finally admitted that the war in Iraq really is about oil after all, because Iraqi oil in the wrong hands could destabilize world markets. I doubt that the oil situation is that desperate yet, but the hundreds of billions of dollars being squandered in Iraq exemplify the lengths to which the U.S. will go in its attempts to maintain control of conventional oil resources.

As CERA correctly points out, this discussion is vitally important. What happens to the price of oil will be reflected in the price of all energy. If oil prices double, the price of natural gas will skyrocket, too. The cost of electricity would follow.

Let's hope the optimistic CERA report does not distract from global efforts to change our oil-rich diets.

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