

OMINOUS SIGNS

Peak Prices or Production Peak?

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Ominous signs were there right at the beginning of the year. On January the 3rd, it was reported that the world price of crude oil had reached its highest level in two years. The price of a barrel of Brent oil was stated to be 94.84 Dollars. This, energy analysts were quick to point out, represented a more than *two hundred* percent increase over the price of crude at the beginning of last year. To recall: after the price of crude had climbed to its highest ever level in the middle of 2008—when it stood at 148 Dollars per barrel, it had descended to 35 Dollars per barrel in the subsequent period when the world economy faced recession. Moreover, both the price peak of 2008, and the price peak registered at the beginning of 2011 are exceptional from a historical point of view. There is only one time in the past, i.e. the late 1970s and early 1980s, when the price for crude oil traded on the world market had climbed to a comparably high peak. Again, analysts predict that the price of crude will remain at an average of about 87 Dollar throughout 2011. In consequence, the question that needs to be posed is this: is the world witnessing a price rise which can be explained by regular market factors—by factors such as: a rising demand for oil by China, or dealings of speculators at the futures' market in oil? Or is it the onset of a structural crisis in the extraction and production of crude?

There is a second ominous sign of bad tidings, largely coinciding with the steep rise in the price of oil. This sign comes from none other than the International Energy Agency (IEA), i.e. the organization representing the interests of Western oil consuming nations, created in the 1970s as a counterweight to OPEC, the cartel of oil producers. In early November, the IEA published its annual *World Energy Outlook*, which report in the Western world is widely considered the authoritative statement on the state of fossil fuel production and energy supplies. While the report contains modest references to the need for a re-orientation in policy-making on energy by the world's capitalist powers, critics of the IEA were quick to pick up the most significant critical element in the report. Which is the fact that the IEA for the very first time in its history has admitted that the production of conventional crude oil 4 years ago reached an all-time peak at 70 million barrels per day. Conventional crude oil refers to that portion of world oil supplies which is extracted via normal drilling methods. According to the *2010 World Energy Outlook*, the production of conventional oil reached its ultimate peak as far back as in 2006. Clearly then, one needs to visualize present constraints on the world market for oil as double. Not only is the world witnessing a peak in the price of crude oils people are also witnessing the effects of a second peak, a peak in extraction of conventional oil!

But why is the admission by the IEA dramatic? Those wishing to remain undisturbed will point out that the debate on 'peak oil' is far from new. And yes, it is true that academicians have been debating the idea of a peak in world oil production for several decades on end. Way back in 1970, the now renowned oil geologist King Hubbert put forward the idea that there are physical limits to the extraction of oil from the earth. Not only is exhaustion of individual oil wells inevitable, national and worldwide extraction of crude oil too are bound to reach their inevitable peak and ultimate decline. Until the late 1990s, Hubbert's views were controversial. Yet since then the inevitability of an ultimate decline in world production of crude has been seriously debated in leading policy circles of the West. However, analysts and observers have continued to be at loggerheads over the question as to when exactly a world production peak would be reached. Whereas defenders of the status-quo and of the

interests of oil corporations continued arguing that it would only be reached only by 2020 or 2030 critics have been insisting that a peak would be on much earlier. Hence, the IEA's admission does have significance. The institution now speaks of existence of a plateau in the production of crude. While the decline in the production of conventional oil is not taking place exactly the way expected by Hubbert—in the form of a bell-shaped curve and a rapid decline, the IEA's admission indeed confirms the alarmist views of its own critics.

What are the implications of this admission? At least three temptations by Western policymakers may be noted offhand. The first is to intensify the scramble for conventional oil resources. This temptation did, of course, underlie the US's attempts to expand its control over oil in the Middle East via the launching of the war in Iraq in 2003. Which war to all accounts has backfired, as even sections of the US Republican Party by now admit that the Iraq war was a futile venture. The second temptation is to bank on extraction of non-conventional oil resources, such as shale oil derived from rock formations, and sand oil extracted for instance in the north of Canada. For a limited period of time the world's total supply of oil can continue expanding thus. However, not only is extraction of sand oil far more costly in economic terms than is drilling of liquid oil. It also requires massive quantities of water and results in larger amounts of waste. The third temptation is the one the Obama government tended to in first part of 2010—to grant oil corporations increased scope for deep sea drilling. Yet the oil disaster which took place in April last in the Gulf of Mexico, quite close to the US's coast, has given the lie to proponents of this option. For it has brought out that deep sea drilling by BP and other oil giants can only be undertaken at great risks—to other economic sectors such as fisheries and tourism, and to biodiversity in nature.

Surprisingly, the International Energy Agency (IEA) implicitly appears to have drawn conclusions in line with what has been stated above. For its annual report, the *World Energy Outlook*, advocates a transition in the world economy and increased reliance on 'modern renewable energy sources', such as wind, solar power, geothermal energy and biomass. This proposition for the IEA sounds as dramatic as the admission that world production of conventional oil has reached its ultimate peak. For it means that an agency which for decades has defended the interests of Western oil corporations and consumers of gasoline is now reorienting—or rather has been forced by circumstances to reorient its energy perspective. Surely, the IEA's report falls short of admitting the need for industrial restructuring. It belatedly speaks of phasing out subsidies for the extraction of fossil fuels, but fails to state the urgency of stepped-up state interventions to promote primary reliance on wind, solar power and other alternative energy. Yet the IEA's admission of the inevitability of an energy transition does have historical significance. There could indeed be no clearer sign that production of conventional oil is set to decline, and that the era of cheap oil extracted via drilling has passed for ever. □□□