

The next crisis: Prepare for peak oil

By PATIENCE WHEATCROFT

As Europe's leaders gather in Brussels today, they have only one crisis in mind: the debts that threaten

the stability of the European Union. They are unlikely to be in any mood to listen to warnings about a different crisis that is looming and that could cause massive disruption.

A shortage of oil could be a real problem for the world within a fairly short period of time. It was unfortunate for the group which chose to point this out yesterday that they should have chosen to do so on the day the Organization of Petroleum Exporting Countries, or OPEC, reported that the effects of the financial downturn had led to a slight downgrade in its forecast for oil consumption this year.

Against the gloomy economic backdrop that Europe currently provides, siren voices shrieking that a potential energy crisis is imminent and could be worse than the credit crunch are liable to be dismissed as scaremongers. Since they are led by Sir Richard Branson, whose Virgin group runs an energy-guzzling airline, and include Brian Souter, who runs Stagecoach, another energy-hungry transport business, they are also at risk of being seen as self-interested scaremongers.

But the work of the Industry Taskforce on Peak Oil and Energy Security shouldn't be disparagingly dismissed. Its arguments are well founded and lead it to the conclusion that, while the global downturn may have delayed it by a couple of years, peak oil—the point at which

global production reaches its maximum—is no more than five years away. Governments and corporations need to use the intervening years to speed up the development of and move toward other energy sources and increased energy efficiency.

In the first report from the task force, Lord Ron Oxburgh, a former chairman of Shell, wrote that "It is pretty clear that there is not much chance of finding any significant quantity of new cheap oil. Any new or unconventional oil is going to be expensive." He went on to quote King Abdullah of Saudi Arabia commenting on a new oil find: "Leave it in the

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ground...our children need it."

The latest report from the Taskforce points out how much modern economies depend on oil, whether for transport, heating or even fertilizer. Demand may have peaked in the developed world but any shrinkage there, is likely to be more than outweighed by the developing countries, with their rapidly expanding appetite for energy to fuel industry needs and consumer aspirations. The International Energy Agency, in its World Energy Outlook report last year, estimated global oil demand, currently running at just over 85 million barrels a day, could reach 105 million barrels a day by 2030. The Taskforce, assimilating various opinions, believes 92 million barrels a day will be the most that global supplies will be

able to generate, "unless some unforeseen giant, and easily accessible, finds are reported very soon."

It may be that the oil companies are keeping some giant secrets from us but that seems unlikely. So what lies ahead is a mismatch between supply and demand. According to Chris Skrebowski, of the Peak Oil Consulting firm, mid-2015 is when the crunch hits. "This is when capacity starts to be overwhelmed by depletion and lack of new capacity additions."

Where that would take oil prices, who can tell? In recent times they have been extremely volatile, hitting \$147 a barrel in July 2008, plummeting to \$32 at the end of that year and hovering between \$70 and \$80 since August last year.

At these levels, it is economic for some of the oil that is harder to get at to be extracted from deepwater developments such as the Gulf of Mexico or the Canadian tar sands. A higher price might encourage more of this difficult production.

But a higher oil price brings with it dangerous knock-on effects for oil-dependent economies with little in the way of their own oil resources. Europe has reason to be concerned. According to Philip Dilley, the chairman of Arup, the consulting engineers: "We must plan for a world in which oil prices are likely to be both higher and more volatile and where oil prices have the potential to destabilize economic, political and social activity."

Not everyone involved in the energy business takes such a pessimistic line. BP, for instance, has been more optimistic about the prospects for tar sands,



although it is also pursuing wind, solar and biofuel investments. Gas is also becoming a much more important part of the energy mix.

Yet even if the gloomsters should turn out to be wrong, the core of their message surely deserves attention. Governments should be doing all in their power to encourage developments that lessen oil dependency. That will also enhance their energy security for, as Russia's Vladimir Putin has demonstrated with use of the on/off switch on the pipeline to Ukraine, it can be uncomfortable being dependent on other countries for energy.

Wind and sun and wave can all make their contributions, but nuclear is where the biggest strides can be made. The U.K. gave up an early lead in nuclear and only in 2008 gave the go-ahead for a new generation of reactors, though funding remains an issue. France is the most enthusiastic devotee of nuclear, with around 60 working reactors. Whatever progress can be made in turning crops into power, scale will make nuclear the fuel of the future. But governments need to wake up to the urgency with which it may be required.

Some dubious emails and slightly dodgy dossiers have cast a new, and unflattering, light on the global-warming debate, raising the risk of a return to the belief that we can go on consuming oil with impunity. Being a "climate-change denier" is in danger of becoming almost fashionable. But whatever the risk to the climate, scarce and expensive oil would be a threat to established economies.

We need alternatives.