

Media Release

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PEAK OIL – Real Risk not Myth

An independent study into Peak Oil has concluded that it is a critical risk that business and Government must now actively manage as a priority of the highest order.

National energy advisory firm Core Collaborative has released the findings of a significant study into international oil production and demand dynamics.

Speaking at the 22nd Annual Forum of the Australian Institute of Energy SA, focused on the subject of **Transport Fuels: Future Prices and Supply Security Risks**, the Chairman of Core Collaborative, Dr Lloyd Taylor, identified the prospect of Peak Oil occurring before 2015 as a genuine business risk that must be considered within the risk management framework of every business in the transportation sector.

To date the Peak Oil debate has focused on the “rights” and “wrongs” of divergent forecasts rather than recognizing that the forecasts are equally uncertain. **“The economic and business consequences of the majority of forecasts are profound and this is where people should focus their immediate attention. There must be serious re-consideration of business models to ensure sustainability and competitiveness in an increasingly uncertain and volatile oil supply environment.”** Dr. Taylor said.

Petroleum liquids consumption in Australia is weighted heavily to the transport sector, with 80% being consumed in road transport and 10% in aviation. As a result, these business sectors are directly impacted by any shortfall in global oil production or disruption to the oil supply chain.

The possibility of a global peaking in oil production and/or adverse geopolitics in the Middle East represents the major business risks to the transportation sector.

The historical record of oil production is sobering. **Despite a period of sustained oil prices in excess of US\$50 per barrel less than one third of 129 countries with historical oil production are producing at historically high rates.** 42% of these countries saw their oil production peak over a decade ago. Moreover, three of the six largest producing countries and regions, accounting for 50% of global oil production, have passed their historical peak of production, and are now accompanied by production declines of 3%-8% per annum. The other three major producers (Saudi Arabia, Iran and Russia) are operating at historically high production rates, but an informed view on future potential is limited by the poor disclosure and lack of transparency surrounding oil reserves and supply infrastructure and planning in each of these countries.

Analysis of the most comprehensively documented and most advanced example of the peaking of oil production, that of the USA, re-enforces the key messages that:

- Peaking of oil production is a genuine and well documented phenomenon in what was the largest producer nation in the world until 1997 and the home of oil field technology

- Oil field technology advances do not reverse the peak of production, rather it helps ameliorate the subsequent decline by 2-3% per annum.
- It is notable that in the US experience the only temporary reversal of oil production decline following the peak of 1970 occurred as a result of the massive oil field investment that accompanied the 15 fold increase in oil prices associated with OPEC oil supply constraint.

The message here is clear; substantive oil price increases can temporarily arrest the rate of post peak decline but not reverse it.

To date cumulative global oil production is estimated to be just over 1 trillion barrels, which represents 30-50% of the ultimately recoverable oil reserves of the world.

Examining estimates of the global Ultimate Recoverable Reserve (URR) of oil the most misunderstood and infrequently quoted factor is the level of confidence attached to any reserve estimate. Based on the most reputable and frequently quoted assessment, that of the United States Geological Survey (USGS) in the year 2000, the most pessimistic estimates of global oil recovery of around 2 trillion barrels have a 95% chance of being exceeded with less than 25% of the global ultimate recovery in the yet to be found category. At the other extreme the most optimistic estimate of almost 4 trillion barrels of oil recovery has only a 5% chance of realisation with more than half this high side estimate in the yet to be found category.

Dr Taylor noted that "...the frequently quoted USGS mean URR of 3 trillion barrels oil has a 40% chance of realisation, yet this underpins the estimates of many companies that a peaking of conventional oil production is '....nowhere in sight'. Based on our analysis there is a better than 60% probability that conventional oil production will peak globally before 2015."

"Perhaps surprisingly for some, within the range of uncertainty, this view is compatible with that analysis of the recent CERA report in which liquids petroleum supply grows 110 million barrels per day by 2015, yet almost all of this growth is met by growth associated gas liquids and non-conventional sources. The key point here is that growth is only satisfied by less flexible, capital intensive and higher cost sources rather than conventional oil."

"This transition to industrial process liquid production is quite a different game to that which has underpinned the provision of abundant, cheap oil to the world for the last 146 years."

"The message is clear...the days of cheap, readily available, conventional oil to meet global demand growth are over unless one believes that low probability outcomes in the USGS global oil URR estimate will eventuate. Successful transport sector business models will have addressed this probability and the risk it carries well in advance."

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Additional Information:

Refer attached presentation

Core Collaborative is a national corporate advisory firm, providing specialist strategic management, transaction execution and corporate finance services, predominantly to the Australian energy industry. Core operates a collaborative network over 25 energy sector specialists who have advised the majority of Australia's energy companies on corporate strategy and growth oriented transactions.

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