

This planet is running out of oil by Richard Campbell

Richard Campbell (convenor of ASPO-Australia's Finance Sector Working Group) wrote the following op-ed piece in The Age, 2nd Jun 2006. It was preceded the day before by another strong Peak Oil article by Elliot Fishman of the Institute for Sensible Transport.

MELBOURNE, AUSTRALIA -- [Victorian Minister of Transport] Peter Batchelor must grit his teeth: widened freeways, improved traffic flow, more rail and yet the transport grizzle-groups still complain. But the minister and his transport planners deserve little sympathy: we all know it won't work, or at least not for long.

Freeways breed traffic. Worse, the entire policy of promoting individualised transport rests on a dubious premise - permanently cheap oil.

The reasons are becoming obvious. While it's fine for 11 to 12 per cent of the world's population to live the car and aviation life, for some reason we assume another 20 per cent won't or shouldn't. But what if the newly affluent in Asia do aspire to just as many car and plane trips? Where does their oil come from? We know, or should know, the basics: 20 per cent of world oil comes from two dozen mature and, in some cases, post-mature oilfields; annual discovery is way below annual consumption (40 per cent at best) and more and more large oil users such as Japan, Korea, the US and China are either without oil or are less and less self-sufficient.

In the 36th year of decline, the US imports 60 per cent of its oil and calls on 17 per cent of all production outside its borders.

American drivers may choke at present prices, but with a rising population and longer trips, demand still grows. Only four years ago, the US used 18 million barrels a day; four years later it is using an extra 3.5 million barrels a day, which means just 4.4 per cent of the world's population needs a new Kuwait every four years.

During those four years, the Energy Information Administration, the US' energy data agency, continued to tell US citizens the oil price would fall. Our equivalent, the Australian Bureau of Agriculture and Resource Economics, did the same. So did Europe's IEA.

These agencies knew, or should have known, how rapidly China's oil demand was rising in the '90s and how steadily mature demand was growing. All three agencies have now swung around to the view that oil will stay high for some time. ABARE has added a new twist.

The agency's executive director, Brian Fisher, says alternative fuels will ensure that, in real terms, oil prices will stay below \$US40 for the next 50 years.

If this is so, this is fabulous news: we can keep the Pajero and roll out more motorways, and large fuel users such as Qantas need not fret about \$900 million more a year in fuel costs. Coal liquification and 30 to 40 per cent of our best crop land devoted to oil seed will do the trick. There's a hell of a lot of energy out there, says Dr Fisher, thousands of years of supply in fact.

Thousands? One has the uneasy feeling that ABARE is talking about a different planet. On an earth with an even distribution of high calorific coal, no problems with global warming, water, limitless supplies of finance, adequate oil discovery rates, and oil demand not rising by between 1 and 2 per cent a year, it would be feasible.

This is not quite the case.

True, coal liquification works (it fuelled Hitler's tanks and planes to great effect) and what's more, it turns a profit when oil is more than \$US40 a barrel. But there's a catch, or actually a few. In its World Energy Outlook, the IEA says oil supply will rise by 35 per cent over the next 25 years to 40 billion barrels a year - provided all concerned spend \$US1.4 trillion a year. But why would oil nations spend trillions to lower their profits or divert funds to coal nations to do the same thing?

Perhaps coal companies will invest? Maybe. The US still has vast geological reserves, but half its eastern coal is gone. There are still vast supplies in the mid-west, but its calorific value is low and producers are struggling to meet power demand, let alone use it for oil.

Europe? Not really. It has relatively little coal left. France none; Britain some; Germany still has volume but it is deep and its mines are subsidised. Russia's oil has plateaued but it has much gas and coal. It is unlikely to undercut oil and gas prices by converting coal. (It already supplies 35 per cent of Europe's gas and is likely to supply 50 per cent within a decade) And Russia is cold. Using its great-grandchildren's coal to keep US Hummer drivers happy doesn't make sense.

China? It is already planning to supply 10 per cent of its oil from coal, but its plentiful coal is largely of lower quality and it has to spend billions switching to nuclear. It needs not just 30 nuclear plants, but 300.

But the most worrisome shortfall seems to be energy literacy. Politicians, policy planners and the public need to get up to speed very quickly about the realities of energy demand, supply and the costs and limitations of oil, coal and the alternatives.

Richard Campbell is a securities adviser with a Melbourne stockbroking firm.