Logistics News: Here we Go – Oil Prices Set to Soar, International Energy Agency Expert Says

Peak Oil Here Soon, Says Dr. Birol; Effect to be "Catastrophic"

SCDigest Editorial Staff

In a devastating outlook for oil supplies and costs, a leading economist at the respected International Energy Agency (IEA) says the world is running out of oil faster than previously expected, and that the world will likely see an "oil crunch" within the next five years that will send prices soaring, starting as early as 2010.

The IEA is a research group funded by a group of economically developed countries and charged with monitoring world energy issues and supplies.

Dr. Fatih Birol is chief economist at the IEA, and says that the so-called Peak Oil theory, which argues the world will soon see a maxing out of global oil production, is very real and happening faster than previous estimates.

In a recent interview, Dr Birol said that the public and many governments appeared to be oblivious to the fact that oil supplies are running out far faster than previously predicted and that global production is likely to peak in about 10 years – at least a decade earlier than most governments had previously estimated.

IEA's recent assessment of more than 800 major oil fields in the world, covering three quarters of global reserves, found that most of the biggest fields have already seen production peaks and that the rate of decline in oil production is now running at nearly twice the pace as calculated just two years ago. The IEA estimates that the decline in oil production in existing fields is now running at 6.7% a year compared to the 3.7% decline it had estimated in 2007, which it now acknowledges to be wrong.

Birol now says there is a strong risk of a crunch in oil supplies in the next year as demand picks up. That will send prices soaring – and give a blow to a global economy trying to recover from recession.

That situation is being compounded by the current lack of investment in new exploration and reserves, the result of the sharp drop in oil prices stemming from the recession. Royal Dutch Shell is just the latest major oil company to talk about cutting back on exploration and development amid falling profits due to depressed oil prices. In addition, most major oil companies have been adding reserves through acquisition, not exploration. For example, just one-third of the new reserves added in the past five years by BP and ConocoPhillips have come from development of new fields.

Given all that, Birol now says there is a strong risk of a crunch in oil supplies in the next year as demand picks up. That will send prices soaring – and give a blow to a global economy trying to recover from recession.

"If we see a tightness of the markets, people in the street will see it in terms of higher prices, much higher than we see now. It will have an impact on the economy, definitely, especially if we see this

Logistics News: Here we Go – Oil Prices Set to Soar, International Energy Agency Expert Says (Con't)

tightness in the markets in the next few years," Dr. Birol said.

In its first-ever assessment of the world's major oil fields, the IEA report concludes that consumption of oil was at "patently unsustainable" levels, with expected demand far outstripping supply.

The report concludes oil production has already peaked in non-OPEC countries and that the era of cheap oil – it's been what, a year already? - has come to an end.

"Many governments now are more and more aware that at least the day of cheap and easy oil is over. I'm not very optimistic about governments being aware of the difficulties we may face in the oil supply," Dr. Birol said.