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IS THE WORLD RUNNING OUT OF OIL?

One of the biggest challenges in the coming years will be how to handle the growing shortage of oil. Historians looking back over the past century or so will call this Age of Oil (in much the same way as earlier eras have identified the importance of, say, canals or railways). Oil meets 40 per cent of the world's energy needs and nearly 90 per cent of transportation needs. Oil is also important for fertilizer, DVDs, rubber, plastics and metals.

Oil is an unusual commodity. Oil stocks can be manipulated in a way that other commodities cannot be, for example, foodstuffs can go stale and so cannot be stockpiled. Meanwhile other commodities can be substituted for similar ones (such as tea for coffee) but oil is unique.

The US remains the number one consumer but it is no longer the top producer; the US has gone from being the top producer to the top importer. Meanwhile, US consumers are reluctant to have conservation methods and there is no political leadership to do so. American motorists consume nearly half the world's daily supply of oil.

China is now the number two consumer (taking over Japan's position). The dramatic growth of the Chinese economy makes it difficult to predict global oil demand. India and other Asian countries are also growing rapidly as their own industrialization process picks up speed

Debate over how quickly oil is being exhausted is focused on the "Hubbert Peak". Under this theory, oil production reaches a peak where about half of the supply of the find is used, after which production become more difficult and more expensive to get at the other half. There is a difference between actually running out of oil – and no longer finding oil at the same rate it is being drilled. This is like getting apples off a tree – there may be apples right at the top but would you want to make the all effort to get there?

This theory was coined in 1956 by the American M. King Hubbert (a Shell geologist), who predicted that US oil production would peak around 1970 (he was proved right) and global output would peak in 1995 (he got that wrong). See: <http://www.peakoil.net>.

There is continuing debate on when the earth overall reaches the Hubbert Peak. The basic question for the Hubbert Peak theory is: has most of the world's oil has been found – or are companies just not working hard enough to locate and drill?

We do not know what is happening in those countries (for example in the Middle East) that control foreign involvement in their industry and so it is difficult to get accurate information. For instance, do the oil suppliers exaggerate their reserves so as to discourage other countries from looking harder to find alternative energy sources?

There have been no major oil finds in recent years. The biggest one recently (in Kazakhstan in 2000) will only produce enough oil for the world to last four months.

On the other hand, the technology of exploration has improved considerably. Engineers are drilling in areas that would have been unthinkable a few decades ago (such as the depths of the cold and windy North Sea). Meanwhile, the higher oil prices encourage greater attention to finding new fields. Also new countries are being opened up, such as the former Soviet republics in Central Asia (Azerbaijan, Kazakhstan, Turkmenistan).

Saudi Arabia remains the single most important oil producer. The country has about 25 per cent of the world's proven oil reserves. The oil used to be easy to obtain (the joke was that you need simply put a straw in the sand and it would come bubbling to the surface). The Ghawar field, found in 1948, remains the world's largest oil field.

The country plays a key role in moderating the international price because it can flood the market with a new supply and so prevent others from pushing up the price. (Of course, if the regime collapsed, the new controllers could work the mechanism in reverse and jolt the international financial system by restricting the supply).

Just how stable is the regime? It knits together traditional tribal clan structures and very conservative Wahhabi Islamic clerics. The average Saudi subject has an unusual life. They have a lifetime pension but they are restricted by the Wahhabi police in how they spend their money. There is a contradiction: the society is wealthy and so open to new technology and new ideas – but there is extensive daily governmental/ religious control over the lives of citizens and so they cannot make much of this beneficial impact of globalization

There is no democracy as such. Citizens do not pay tax and so the ruling elite feel no obligation to be accountable to them

The ruling elite consist of about 50,000 people. There is some doubt as to the precise number because some men do not know how many children they have. Osama bin Laden is one of about 50 children. The elite govern 22 million people (of whom 16m are Saudi). The other six million are people brought into the country to do menial tasks (for example, women cannot drive cars so about a million chauffeurs are brought in to drive them).

Osama bin Laden (who is the black sheep of the billionaire family) is determined to destroy the regime because he thinks that it is not conservative enough. Most of the September

11 hijackers were from Saudi Arabia. They were rich, well-educated young men who apparently had much to look forward to and yet were bored. Osama bin Laden gave them a cause to die for.

How will historians treat us in the rest of the world for relying for so much of our wealth on such a small, fragile regime?

The Saudi problem is just the tip of the oil iceberg. For example, China also wants oil from the Middle East. It is improving relations with Iran. The US regards Iran as part of the “Axis of Evil” but China sees it as a valuable trading partner and will look after its interests in the UN Security Council. Meanwhile, China is also encouraging Canada to build east-west pipelines to get oil to the Pacific coast (and not just north-south down into the US).

The lesson from all this is the need for diversity: do not have all your energy eggs in the one basket. On the one hand, aim for greater efficiency of existing energy supplies. On the other hand, we need to look at alternative potential sources such as solar, hydroelectric and wind.

Management writer Peter Drucker once commented: “The unexpected is often the best source of innovation”. The War on Terrorism can be used as an opportunity to educate Australians on the seriousness of the energy situation. With the greater sense of urgency, it is necessary to educate Australians not to be so reliant on oil.

✓ Here are some recommendations:

1. change the superannuation laws so that superannuation funds can be used for Australian venture capital to finance alternative energy sources.
2. encourage research and development – including making as much fuss of energy scientists in the media as we do of sporting personalities.
3. set an exciting national target (a vision like President Kennedy’s “putting a man on the Moon by 1970”) for energy, for example, “Australia will become a major exporter of alternative energy sources by 2015” or “By 2010 foreign visitors will be stunned by how well Australians conserve energy”.

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