

Peak oil a myth

Tuesday, 14 July 2009

PNN reader Michael Scott, the managing director of Cooper Energy, has written in response to the *Slug's* article this week (Slugcatcher on peak oil going missing in action) that "peak oil" is a myth.



"The world is not going to reach some finite singularity high point in oil production and then it is all going to go horribly wrong.

"A more realistic model is 'flat oil'. The picture is more like a typical oil production profile phase one (ramp-up), phase two (plateau) and phase three (decline)."

He adds that the world's oil producers are supplying some 85 million barrels per day with the world using roughly the same amount.

"The elasticity in the system (some 300MMbbl) is taking up the times when supply exceeds demand and when demand exceeds supply.

"We are currently in phase two of oil supply and therefore during the times when the supply and demand curves slap back and forth, the oil price is going to be very volatile. However, the price will continue to trend upwards (long-term trend and not the daily or by the second reports). Once the true decline point hits (between phase two and phase three), volatility will soften and prices will be smoother and higher."

Scott noted that while the financial crisis had hit demand, causing it to drop slightly below supply, demand had started climbing again and therefore prices should once again firm up.

"Investors should also look at the actual daily sales price of crude and not futures – which introduce further volatility into the system. When you see the oil price reported, what is it that they are actually reporting – daily actual sales price, Nymex futures, WTI, Brent, Tapis?"

"So ... over the next few years be prepared to live with swings in oil price due to the natural volatility of the system. But be aware that futures and daily prices are two different beasts.

"However, unless we have a major technology shift from a liquid world the oil price is eventually and ultimately only going to go one way."

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