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TITLE: **The dirty topic of peak oil: get ready to reduce your reliance**

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PUBLICATION: **Crikey**

PUBLICATION DATE: **02/09/10**

LINK: *https://www.tai.org.au/index.php?q=node%2F19&pubid=788&act=display*

Wouldn't it be funny if we spent so long arguing about what to do about climate change that we ran out of cheap oil first? No, it wouldn't really, it would be catastrophic. But given the government's delay in producing an Energy White Paper and the steady backsliding on the need to actually reduce our greenhouse gas emissions in Australia it is not beyond the realms of possibility. Even the usually optimistic International Energy Agency (IEA) is starting to sound a little nervous.

No one can say with certainty how much oil is left in the ground and how much it will cost to take it out. As with climate change, the search for certainty in relation to oil supply is a fool's errand. But while no-one can say with certainty how much is left, virtually no economists or oil industry analysts disagree with the statement that oil production cannot keep growing forever. The notion that oil production must one day peak is now referred to as 'peak oil'.

While there is virtually no debate that oil production must one day peak there is much debate about the timing and significance of such a peak. For those who have become accustomed to talking about emission reduction targets for 2020 and 2050 it may come as some surprise to learn that the mid-range forecasts for the peak in global oil production are 10-15 years. This does not mean that there will be no oil in 10 or 15 years time, but it means oil is going to get a LOT more expensive. Put simply, if demand continues to rise and supply starts to fall the days of the average Australian driving their Landcruiser to work will be over.

Peak oil concerns exploded during the rapid escalation of oil prices prior to the 2007 global financial crisis. These concerns have been underscored by official bodies such as the IEA warning of a possible 'supply crunch' brought about by a lack of new investment following the crisis, and of rising depletion rates from existing fields.

According to the CEO of Lloyds Insurance there are three factors combining to create deep uncertainties in how we will source energy for power, heat and mobility, and how much we will have to pay for it. These are the growing constraints on 'easy access' oil, the urgency of reducing carbon dioxide emissions, and a sharp rise in energy demand from the emerging economies, particularly China.

As with climate change, the debate about peak oil is not simply confined to whether it exists or not, but whether it is worth worrying about. Some economists simply argue that as price rises rapidly people will be forced to use a lot less fuel. While this is no doubt true, the potential disruption to the broader economy of people not being able to afford to drive to work are significant, to say the least.

World economies are built on oil. As occurred in response to the OPEC oil shock of the 1970s, skyrocketing oil prices are likely to result in severe disruption to those economies, with central banks raising interest rates to slow inflation, people out of work, and in the third world famine and civil disorder as much agricultural production depends on oil.

The obvious policy response to the inevitable peak in oil supply is to begin to reduce our reliance on oil well before we are forced to do so, but what would that entail?

Subsidies for oil use are common around the world and need to be phased out. Wastefully low rates of fuel tax in the US should be changed. Countries like Australia, while small in terms of their contribution to demand, have a role to play. Fuel and road-pricing regimes need to be altered to encourage fuel efficiency. A congestion tax and investment in public transport would help to shift people from the least to the most fuel-efficient forms of transport. Alternative fuels like natural gas can be promoted and fringe benefits tax concessions on company cars that encourage owners to drive more to pay less should be scrapped.

Some of the alternatives to conventional oil are becoming economic at current prices, and might offer a way around peak oil. But it must be recognised that they can involve extremely high and possibly unsustainable costs in terms of greenhouse gas emissions. The extraction of oil from tar sands, for example, or its processing from coal and natural gas generates enormous amounts of greenhouse gasses. This poses a potential dilemma for policy, but the answer is actually quite simple—a price on carbon.

As luck would have it, the policy prescriptions to prepare for peak oil are almost identical to those required to reduce our greenhouse gas emissions. Let's hope that policy makers who are disinterested in saving the planet will pay a bit more attention to saving the economy. It's inevitable that we will run out of cheap oil, but it need not be inevitable that our economies grind to a halt.

But if we are to avoid another big and permanent increase in the price of oil we need to invest in early adaptation. It will be costly and difficult to redesign cities, switch the vehicle fleet to new forms of fuel and invest in public transport. Ironically, it will be much cheaper and easier to make such investments before the price of oil surges rather than after. Early investment in adaptation measures will pay high dividends in the future.

And who knows, if in 20 years someone finds an enormous new oil field in the middle of Australia all that preparation might have served only to avoid catastrophic climate change. And wouldn't we feel silly then.

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