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Geopolitics of Oil
Peak Oil

“Have we reached Peak Oil and if not Why—present evidence to support your argument.”

Kenneth Deffeyes (2009) claims definitively that in 2005 “we hit peak oil” (pp. ix). To determine whether this is indeed the case, it is important to define “peak oil.” In 1956, M. King Hubbert, a geologist, predicted that the United States would reach peak oil by 1970 (ibid). His prediction was rooted in an understanding of the amount of oil that had been discovered combined with estimates of increased production and demand. The point at which the production of oil is at its highest, levels out, and then enters terminal decline, is the “peak” (Hook, Hirsch & Aleklett, 2009). When the prediction came true in the U.S., the event became known as “Hubbert’s Peak” and the revelation meant that if this could happen in the U.S., it could happen in the world.

Deffeyes (2009) supports his contention of having reached peak oil through an economic analysis of the cost of oil. He posits that if we haven’t hit peak oil, then the bidding war over what is left would not be viable and the price of oil would not be as steep as it is. In addition, the simple law of supply and demand reveals that there is just not enough new oil found to replace what is being used, thus the demand is outpacing the supply, which too points to having reached peak.

The debate as to whether “peak” oil has been met should be best clarified by focusing on only crude oil and not unconventional oil sources. For example, it can be argued that the new technologies developed to tap into shale resources has reset the peak, and thus offers a new twist to energy sources available to meet demand. Those industry experts who retain that alternative energies will contribute to meeting the consumer demand for all that oil can provide, is challenged by the fact that those alternative sources have not yet achieved widespread investment, development, and buy-in in order to ward off reaching peak (Deffeyes, 2009).

Some suggest that oil is being ‘hidden’ as a way of raising the price of oil (Smil, 2010), though others propose that OPEC, for example, is simply trying to extend the availability of the limited amount of oil, which is another indicator that peak oil has been reached (Deffeyes, 2009). Evidence of reaching peak are newly measurable as in the instance of Norway, whose terminal decline commenced in 2001 with estimates that Norway, presently the 3rd largest oil exporter, will cease to become so by 2030 (Hook & Aleklett, 2008).

Favennec (2011) puts forth that while the peak might yet not be achieved, it is a very real problem because the world’s habits are changing. The United States is such a huge consumer of oil and much of its technologies and advances that have been shared throughout the world in active globalization have spurred demand in far larger countries such as China. Indeed, if per capita, the Chinese consumed as much as Americans, the demand would well outpace the supply. Hilyard (2012) contributes to this view in distinguishing between peak ‘demand’ and

peak ‘production,’ the latter of which he posits met peak in 2006 and the former which has yet to achieve its height.

While panic over having reached peak oil may not be necessary (Smil, 2010), being aware that we very well may have reached it, for what we know today and barring any new discoveries, is important for the energy industry and its consumers. Knowing how much money you have in your account is important to knowing what you can spend. Similarly, claiming that we have met peak oil is not a bad thing—it allows us to prepare for the deficit through either identifying new sources, leveraging alternative sources, or reducing consumption.

References

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