

Peak Oil: What Comes Next?

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We were supposed to run out of oil eventually. They called it peak oil.

But it will never happen now. At least not how you expected.

Can you imagine the early Stone Age humans worrying about running out of stones to make their tools? Or Bronze Age tribes arguing over what would happen to their society after all the bronze is melted up? Did the Iron Age civilizations debate about how to deal with “peak iron”? Maybe they subsidised less efficient tools made out of sustainable and renewable wood.

It probably never happened. Although, you never know...

What did happen is that we moved on. We found something better each time. Any problems finding the right stone, bronze or iron helped us move on by encouraging research and development efforts. Probably trial and error or accidental discovery back then.

The same is happening in the world of oil today. Each time the price spikes, alternative technology gets another boost. Eventually oil will cause the spike to impale itself on. [Another source of energy will suddenly become stronger](#), more efficient, cleaner, easier to use and the all-important one – cheaper.

It looks like we might reach that tipping point very soon. More on that in a second.

What you need to understand is that peak oil will be a demand-driven phenomenon. Just as we didn't run out of stones in the Stone Age, bronze in the Bronze Age or iron in the Iron Age, we won't run out of coal or oil. We'll move on to something.

It's the transition phase that's interesting. And the point at which you can position yourself to profit most as an investor. There's one big rule. Don't look to the government for guidance...

The diesel disaster

In the midst of humanity's progress, you have governments wreaking havoc. From ethanol to diesel, as soon as the government gets involved in the process, it's a mess.

I didn't know about the diesel disaster until I discovered it today. It was hidden underneath all the VW emissions scandal news that dominated the lines.

Having encouraged people to buy diesel cars by cutting excise duty, the government then discovered that diesel cars actually have higher poisonous emissions. Someone probably should've checked the emissions before we encouraged emitting them. But who would get in the way of a good political initiative?

Well the environmental group ClientEarth sued the British government for the damage it's doing to the environment with its diesel policies. I couldn't find any record of it supporting the diesel excise duty cut to reduce CO2 emissions in the first place, but it probably did.

Anyway, the high court ruled that the UK's toxic air policies are so bad they breach EU law, which compels governments to implement decent efforts. Here's my favourite part of Justice Garnham's ruling on how to interpret the EU law: "I reject any suggestion that the state can have any regard to cost." And that's another reason to leave the EU!

So it looks like oil and its derivatives like gas are going to be targeted by the government. That'll drive up their cost, which suits companies just fine. But their time is coming to an end altogether as the higher costs push alternatives to the realm of the possible.

Imagine if you were a bronze investor at the end of the Stone Age. Or an iron ore investor at the end of the Bronze Age. Or you bought oil stocks before the Royal Navy was refitted from coal to oil by order of a Mr Churchill before the First World War.

Your ancestors would probably still be living it up. Which begs the question, what comes after oil?

White diesel and the Electric Age

Now that you know about the diesel shemozzle, it's a rather unfortunate name. But my friend Eoin Treacy is sticking with it.

It's the resource that will power the coming age – the Electric Age. It's white diesel.

The challenge of the Electric Age isn't power generation, it's distribution and storage: how do you get the power from a station to move a wheel or charge a phone where it's needed? Our current infrastructure and battery technology isn't efficient enough.

The infrastructure technology remains stuck for the most part. But battery tech is powering a. And that's creating your investment opportunity.

A futurist economist from Stanford and a London-based tech investor formed the think tank ReThink X, which recently published its forecast on the car industry in the US. It's mind-boggling stuff.

The [economists](#) reckon that transport will become a service, not something we do for ourselves. Initially the trend is in delivery of the things we go out to buy and lift hiring like Uber. Then, as driverless and electric cars emerge, the trend will accelerate dramatically. The cost will be four to ten times cheaper per mile thanks to far higher utilisation rates of vehicles, lower maintenance costs and lower energy costs. It will only take ten years from autonomous vehicle approval before 95% of passenger miles are travelled by such cars.

All this is going to destroy the oil industry as we know it. From the ReThink X report:

As fewer cars travel more miles, the number of passenger vehicles on American roads will drop from 247 million to 44 million, opening up vast tracts of land for other, more productive uses. Nearly 100 million existing vehicles will be abandoned as they become economically unviable.

“Demand for new vehicles will plummet: 70% fewer passenger cars and trucks will be manufactured each year [...]

The transportation value chain will deliver 6 trillion passenger miles in 2030 (an increase of 50% over 2021) at a quarter of the cost (\$393 billion versus \$1,481 billion).

Oil demand will peak at 100 million barrels per day by 2020, dropping to 70 million barrels per day by 2030.[...] This will have a catastrophic effect on the oil industry through price collapse (an equilibrium cost of \$25.4 per barrel), [...]

So what do all these electric autonomous vehicles need to power themselves? Batteries filled with white diesel – lithium.

ReThink X thinks lithium is important enough to put in its executive summary:

The geopolitics of lithium and other key mineral inputs to A-EVs are entirely different from oil politics. There will be no “Saudi Arabia of lithium.” Lithium is a stock, while oil is a flow. Disruption in supply of the former does not impact service delivery.

Imagine the Middle East without oil money. Or Scottish independence without oil money. How will US shale states fare? And what will happen to Russia's stranglehold over eastern Europe if it doesn't need Russian gas?

Welcome to the Electric Age. [Here's how to position yourself to profit.](#)

Until next time,

Nick Hubble
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