

The Peak Oil Crisis: Closing Out the Year



By Tom Whipple

Wednesday, January 04 2012 03:14:52 PM

The returns are in and we now know that world price of a barrel of oil averaged \$111 in 2011. This was up 14 percent from last year and well above the previous high of \$100 set in 2008.

The average barrel of oil that we bought last year cost \$15 more than the year before. Here in America, we burn about 6.7 billion barrels of the stuff each year. Therefore, our collective oil bill for 2011 was about \$100 billion higher for the same amount of energy that we burned in 2010. This \$100 billion created few new jobs here in the USA. Much of it went overseas and into the coffers of people who don't like us very much.

Last year's news was dominated by the Arab spring and its derivatives which spread from Wall Street, to Moscow, to villages in China as the revolution in communications technology coalesced in the hands of a new generation making dissidence against governments everywhere far easier to organize. By the way, the latest count of cell phones shows that in excess of 5 billion have been produced. Not all of these are still active, of course, but for a world of 7 billion people, many of whom are too young to talk much less carry a mobile phone, that is an impressive number. It is clear the world is changing in ways we cannot yet comprehend.


The peak oil story changed little last year. Global oil production hung in around 88 million barrels a day (b/d) despite the Libyan uprising which took nearly 1.6 million b/d out of production for several months. For much of last year global oil production was below consumption resulting in a gradual drawdown of world reserves. With OECD stockpiles of about 2.6 billion barrels, plus the new reserves being accumulated in China, a slight shortfall in production is not a problem for the time being.

During 2011 it became apparent that the demand for diesel is becoming a worldwide problem. While the demand for gasoline has been falling, at least in the OECD nations, the demand for diesel has been increasing. As electricity production falters around the world mainly due to droughts, aging equipment, and unaffordable fuel prices, the demand for diesel generated backup electric power has surged. Vital uses for electricity such as in hospitals, public safety, and water pumps will continue no matter what the cost. It should be noted that much of the increase in "oil" production in recent years has been made up of natural gas liquids and ethanol which are not commonly used to produce diesel, leaving the quantity of feedstock for diesel production stagnant.

The year ended with little change in the assessment for the prospects for global oil supplies. Despite all the hype concerning new oil finds and technological breakthroughs in oil production, these developments still are not contributing enough new oil to offset the annual decline of 3 million b/d from existing fields and the annual increase of circa 1 million b/d of new demand. The bottom line among those following this issue is that global oil production likely will start to decline in the next one to five years as depletion gets ahead of very-costly-to-produce new sources of "oil."

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