

TRANSCRIPT – IAN DUNLOP

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Ian Dunlop is Deputy Convener of the Australian Association for the Study of Peak Oil and warns that the oil supply will eventually run out and with that and the global warming issue in mind, we need to look for alternatives.

Transcript

This transcript was typed from a recording of the program. The ABC cannot guarantee its complete accuracy because of the possibility of mishearing and occasional difficulty in identifying speakers.

Robyn Williams: So the oil price is beginning to fall. At last. But how far, and for how long? Can we really, as *The Age* reported a few days ago, expect to pay \$ 8.00 a litre to fill the car in 10 years' time?

One particularly interesting point of view on this comes from Ian Dunlop, who was an executive in the coal and oil industries for many years and indeed, CEO of the Institute of Directors here in Australia. What if oil does continue to go up and up, and how does he think we should prepare for the inevitable change, as he sees it?

Ian Dunlop: In the furore over increasing oil prices, the two words our leaders seem determined not to mention are 'Peak Oil'. Having built our prosperity on cheap energy from fossil fuels, particularly oil, it is perhaps understandable that they cannot bring themselves to admit that business-as-usual is over as cheap energy disappears; firstly due to the need to address global warming, and secondly due to the peaking of global oil supply which will probably have even greater impact than global warming in the short term.

Peak Oil takes its name from the bell-shaped curve which typifies the production profile of any oilfield. Once an oilfield is discovered, oil wells are drilled and production rises until drilling saturation is reached, whereupon production levels off at the peak. It then drops along the declining segment of the bell shape until the reservoir is exhausted. This profile applies to an individual oilfield,

to all oilfields in a region and now to the globe, although it may get distorted along the way by, for example, geopolitics.

At the peak, oil does not run out, as roughly half of the ultimately available oil remains to be produced. However, it is the point, globally, at which further expansion of oil production becomes impossible because production from new oilfields is more than offset by the decline of production from existing fields. It may be a sharp peak if, for example, some of the giant fields start to decline rapidly, or it may be an undulating plateau spread over a number of years if, for example, oil demand is destroyed as a result of recession or developing countries are no longer able to afford high oil prices. Once demand begins to exceed supply, oil prices rise, as they have been doing over the last few years; the bigger the gap, the higher the price.

The 'official view' until recently, from organisations like the International Energy Agency, the IEA, the energy watchdog of the developed world, was that we had abundant oil resources available from both conventional and unconventional sources, which would meet rapidly expanding global demand as China and subsequently India, became large consumers. The economists took comfort as the oil price rose, on the grounds higher prices would stimulate additional production so that supply eventually balanced demand and forced the price down in the classical mode, as an eminent Australian economist colourfully put it, 'If the price of eggs is high enough, even the roosters will start laying!'

Maybe so, but it's one thing to have oil resources in the ground, it is quite another to convert those resources into oil flows to the market. It now seems there are unexpected problems in so doing, to the extent that we are probably approaching the peak of global supply. We may have already passed the peak, or it may be some years ahead, but the exact date is less important than accepting the principle and taking action to prepare for it. The 'official view' is now scrambling to catch up with reality. As the Chief Economist of the IEA recently commented, '... putting these two things together, the short and medium term security of our oil markets, plus the climate change consequences of this energy use, my message is that if we don't do anything very quickly, and in a bold manner, the wheels may fall off. Our energy system's wheels may fall off ...' In urging OECD governments to rapidly change policy from 'business-as-usual' he commented '...we must leave oil before it leaves us.'

The reasons supply is not expanding are first that we are not discovering new oilfields quickly enough. Second, data on existing fields is suspect, particularly in the Middle East, so we may not have as much oil as we thought. Third, production from many existing oilfields is declining as part of the natural process often more quickly than admitted officially. Fourth, unconventional oil resources such as deep water and tar sands, are proving more difficult to develop, technically and economically, even with higher prices; they also have major environmental problems such as high carbon emissions and high demand for water and energy, to the point where in some cases, almost as much energy is needed to produce the oil as is ultimately recovered. Fifth, oil producing countries are using more oil domestically and are less prepared to export it.

Given the absolute dependence of modern societies on oil and gas, price hikes and supply shortages will be traumatic, as already evidenced by current unrest in Europe, and protests in the Middle East and Asia as oil subsidies are withdrawn. Australia is particularly vulnerable, but the issue was ignored by the previous Federal government and is barely acknowledged by the new government. Peak oil is arguably the biggest issue Australia will have to contend with in the next decade. Strange it did not even rate a mention at the 2020 Summit.

Oil prices may well drop temporarily if we move into recession, or if increased oil discoveries do result from the exploration triggered by current high prices. But the general price trend is probably upwards. It is misleading to pretend otherwise. We should be preparing for that eventuality now, not playing King Canute in futile attempts to turn back the global tide with 5-cent fuel excise or GST reductions.

We actually need higher oil prices to wean us off the use of oil and to encourage alternatives. This may seem hard, but unless we face up to this reality quickly, the problem will become far worse. There is certainly a case for assisting those most exposed, to ease the transition to a world of expensive energy, but it should be via specific targeted measures, not with across-the-board attempts to drop petrol prices which are miniscule in relation to the size of the problem.

Passing the peak raises the question of who gets the available oil? Solutions range from:

Firstly, letting the market take its course, the preferred route of most economists, but which conveniently skirts around the traumatic societal impact of recession or depression arising from high energy prices, and the potential for the creation of failed states as developing, and possibly even some developed countries, are increasingly forced out of the market.

Secondly, the 'Washington Consensus' of sending in the marines to secure supply. Recent experience in Iraq suggests this is hardly a sustainable alternative.

Thirdly, a global mechanism for equitable sharing of available oil, for example an Oil Depletion Protocol, akin to the Kyoto Protocol for carbon emissions. Indeed, the IEA was created in 1973 for exactly this purpose, to assist the OECD countries in allocating oil during the first oil shock. This time the problem is far greater, but we have handled similar situations in the past and we will probably have to resort to allocation mechanisms again, despite the protests of the market economists.

IN the UK in 1945, my mother handed me my ration book with the far-sighted admonition 'Keep it safe, you will need it again'. Fortunately I am a hoarder!

But as if peak oil was not enough, there is another problem: global warming and the need to radically reduce our carbon emissions from fossil fuel use, probably to completely decarbonise the economy by 2050, far more than is being admitted politically. This will itself raise fossil fuel energy prices as carbon is properly priced, via mechanisms such as emissions trading, to reflect its environmental cost.

There are solutions to these converging issues, but they take time to implement, and we should have been planning for this years ago. We did not do so and we are now facing the consequences. Some obvious solutions, for example increasing coal consumption, or coal conversion to liquids as Martin Ferguson recently proposed, are carbon emission intensive, and in the absence of carbon capture and storage, which is still unproven for large scale application, would be extremely detrimental to solving global warming. The two issues are inextricably linked and need to be treated with consistent and holistic policy. So what would that policy look like?

First, we need an honest, public acknowledgment by the government and business leaders of the real challenges we now face.

Second, urgent education campaigns to inform the community and gain support for the hard decisions ahead.

Third, we must establish an emergency, nation-building response plan to place the economy on a low-carbon footing, minimizing the consumption of oil, akin to a 21st Century version of the 1950s Snowy Hydro Scheme, but much bigger and broader, or the Marshall Plan, which reconstructed Europe post World War II.

The components would be firstly, major focus on energy conservation and energy efficiency; second, large-scale conversion to renewable energy; third, major investment in efficient public transport, rail, bus, cycling, etc and an immediate halt to investment in freeway and airport expansion; fourth, rapid phase-out of high carbon emission facilities such as coal-fired power stations unless safe carbon capture and storage can be introduced within 10 years; fifth, urgent introduction of high-speed broadband to minimize travel and improve communication efficiency; sixth, continued investment in low emission technology; seventh, rapid reform of the tax system to remove the perverse incentives which encourage oil use and carbon emissions.

We face major changes to our lifestyle. It is not just high oil prices and global warming but the very question of the sustainability of humanity on the planet as population rises from 6.5-billion people today to 9-billion in 2050, all aspiring to an improved quality of life. New technology will undoubtedly come to our aid but that will not be enough; our values must also change. Conventional economic growth in the developed world will have to be set aside in favour of a steady-state economy where the emphasis is on non-consumption and the quality of life rather than the quantity of things.

There will be far more focus on local food production, opening up new opportunities for rural areas; cities will be redesigned using high-density sustainability principles to avoid urban sprawl, and properly integrated with public transport to minimize energy consumption. Work centres will be decentralized. Rail, powered by renewable energy, will become a major transport mode for both freight and high-speed passenger traffic. Air travel will reduce unless new technology develops jet fuel from, for example, bio

sources, and even then emission constraints may limit its use. The internal combustion engine will disappear in favour of electric vehicles for many applications. Cycling and walking will become major activities for both work and pleasure - obesity and diabetes will decline!

The challenge is enormous, but it is the greatest opportunity we have ever had to place the world on a sustainable footing, for what we are doing currently is not sustainable. We must not waste this opportunity, but it needs far bolder and broader thinking than we are seeing at present.

Which raises the question of the ability of our democratic system of government to implement such change. It will require statesmanship of the highest order, a quality sadly lacking in both national and global debate. Different forms of government will be needed, but that is a discussion for another day.

Robyn Williams: Which we shall have soon, no doubt, maybe on this program.

That was Ian Dunlop, former Head of the Australian Institute of Directors and now Deputy Convenor of the Australian Association for the study of Peak Oil. And he mentioned flying in planes just now, and the new austerity that might come if fuels aren't adjusted.

Well next week, a farmer from near Canberra, Richard Begbie, takes on that one - the unmentionable issue as he calls it. Will flying soon become what it once was? A rare pleasure, instead of a common endurance test.

I'm Robyn Williams.

Guests

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