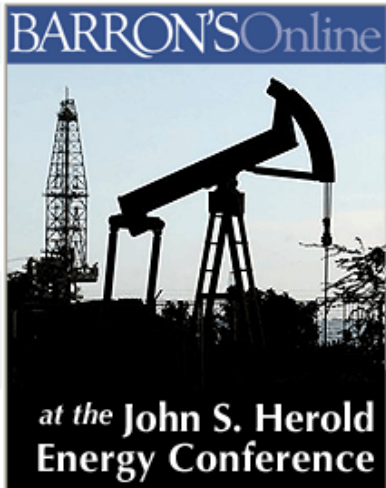


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Oil Output Will Peak, But When?

By **DIMITRA DEFOTIS**

OLD GREENWICH, Conn. -- A peak in global oil production is either upon us or comfortably decades away, depending on whom you ask.

Experts on a panel discussion on the subject at the John S. Herold energy conference here this week agreed that daily global oil production, now about 85 million barrels a day, will indeed "peak" at some point.

The question, of course, is when.

Concern about dwindling oil production globally is helping drive oil prices to new levels -- near \$67 per barrel Thursday, compared with historic averages closer to \$25. As fears of "peak oil" production grow amid strong demand and reserve growth limited to about 2% a year despite investment, the experts agree that higher oil prices are here to stay. But with a little effort on the part of consumers, peak oil need not lead to drastic changes in the American lifestyle despite dwindling and expensive fossil fuels. Charles Maxwell, once Wall Street's leading energy analyst, says that Americans will need to conserve energy voluntarily or they will face "higher prices with harsh economic consequences." Domestic U.S. oil production peaked in 1970. The question is whether worldwide production could peak in several years, as some theorists contend, or if the high point is decades down the road. That would give governments and individuals more time to invest in conservation and alternative fuels, and to adjust to the higher cost of living. Maxwell thinks output will peak between 2015 and 2020 -- a decade or so from now.

He says the impending energy crisis will create a new world order, with a wave of warnings over the next 25 years. The damage to oil and gas production facilities in the Gulf of Mexico from Hurricanes Katrina and Rita were the latest warnings, he told attendees at the conference organized by Herold, an independent energy research firm.

Maxwell thinks energy conservation measures, promoted by the U.S. government, are needed to push the day of reckoning further into the future. (See *Barron's*, "[The Gathering Storm](#)," Nov. 15, 2004.) Those up in arms about the production peak are disciples of the late M. King Hubbert, an oil industry geologist. He revealed a scary-

looking bell curve in 1956 and predicted U.S. oil production would peak in 1969. Oil production did indeed peak a year later.

Today, peak oil is a hot enough debate that there's an Association for the Study of Peak Oil, based in Sweden. Arthur L. Smith, chairman of John S. Herold, knew Hubbert and is a follower. "I think we are on top of peak oil now," says Smith. The peak would mark the end of cheap oil. And if people cannot switch to alternatives fast enough, global economies could suffer. Tom Petrie, who runs an energy investment bank and research firm in Denver, says that "a lot of things can be done to mitigate the [oil production] decline curve, but they are just mitigators." One big unknown in determining just when production will peak is Saudi Arabia.

The Saudis possess 25% of the world's proven oil reserves and say they can double their daily output of 10 million barrels. But if the Saudis are near their production peak, as some think, oil prices could head higher still. Petrie credits Matthew R. Simmons, chairman of a Houston energy investment bank, in getting the peak-oil debate going. (See *Barron's*, "[Crude Calculations](#)," Nov. 29, 2004.)

Simmons doubts the Saudis' future production promises. His new book is on "the coming Saudi oil shock." But the Saudis aren't the only wild card that could cause oil price spikes. Any severe short-term disruption in supplies, from civil unrest in Venezuela to another bad Gulf of Mexico hurricane, could send prices past \$100 per barrel.

While those spikes might be temporary, higher oil prices mean strong earnings for energy companies, says Mark Tinker, head strategist at Execution, a London-based brokerage. "The guys I talk to have trillions of dollars to invest," Tinker told the investors and energy executives assembled here. "Sustainable returns are out there. Doing nothing is taking a risk." Of course, if the hurricanes and higher energy prices damp consumer sentiment enough that the U.S. economy slows for an extended period, demand would decrease, the production peak could be pushed further into the future and oil prices would come down.

Tinker disagrees with the gloom-and-doom prognosticators. He says those who thought the Nasdaq market crash, terrorism, the jobless recovery, the weak dollar or the housing bubble would crush the U.S. economy have been wrong so far.

"High oil prices will no more kill the American consumer than any of the previous [scares]," Tinker says. But given the importance of oil to the U.S. and world economy, peak oil is bound to cause some wounds. No one at the conference was in a hurry to make dire predictions.