



IEA boss denies and confirms peak oil in same breath

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It seems that the International Energy Agency, the intergovernmental energy watchdog, has been going in overdrive lately. First, we had the [interview of its chief economist](#) warning us that we were going toward a wall without Iraqi oil, then the recent publication of their yearly outlook report [predicting shortages within 5 years](#), and now we have another [disquieting interview in Le Monde](#), the big French daily, with Claude Mandil, the head of the Agency, who pulls no punches, despite an apparent denial of "peak oil". Follow me below the fold for a translation.

L'OPEP s'est inquiétée des déclarations de pays consommateurs en faveur d'une réduction de la dépendance au pétrole et d'un axe Washington-Brasilia sur les biocarburants. Ces craintes sont-elles fondées? Certaines déclarations du président américain George Bush ont semblé très inquiétantes pour l'OPEP, mais ses membres n'ont aucunes craintes à avoir. La demande de pétrole conventionnel va croître dans les années à venir, et compte tenu du recul annoncé de la production des pays non-OPEP (Russie, Grande-Bretagne, Norvège...), la part du marché mondial de l'OPEP progressera en valeur absolue d'ici à 2050. Quant aux biocarburants, l'OPEP sait que la substitution n'est pas possible. Ils ne représenteront jamais plus de 10 % de la consommation mondiale. Cela ne devrait pas lui donner de cauchemars.

OPEC worries about declarations by consumer countries about lowering dependency and talk of a Washington-Brasilia biofuels axis. Are these worries legitimate? Some speeches by Bush may have sounded worrying for OPEC, but its members should not worry. Demand for oil will increase in the coming years and, taking into account the decline from non-OPEC country production (Russia, Norway, UK, ...), OPEC's share of the world market will increase in absolute value by 2050. As to biofuels, OPEC knows that substitution is impossible. They will never make up more than 10% of world production. This should not cause them nightmares.

Beyond the now familiar criticism of biofuels (boy has the wind turned on that topic!), the most interesting thing to note here is the inclusion of Russia in the list of countries in decline. While his statement is slightly ambiguous as he only mentions the 2050 date, I believe that it is a significant acknowledgement. When you look at where production increases have come in the past 5 years, Russia tops the list - in fact, the catch up in Russian production after the precipitous decline of the 90s (caused by Soviet collapse in a context of an already declining industry - Russia's production peak is and remains in 1986) was the main reason the massive demand increase of the past few years has been absorbed relatively painlessly. Noting that this solution is gone puts the focus, more than ever, on OPEC production.

L'OPEP (Organisation des pays exportateurs de pétrole) refuse de produire plus, affirmant que le marché est bien approvisionné. N'est-elle pas la vraie responsable ? L'OPEP connaît la situation : le marché n'est pas bien approvisionné. Elle doit vite augmenter sa production. Il est d'ailleurs possible qu'elle le fasse discrètement dans les mois à venir. C'est une abondance en trompe-l'oeil et saisonnière. Les raffineries devront fonctionner à pleine capacité pour produire de l'essence pour cet été et répondre à la forte demande des troisième et quatrième trimestres pour le fioul domestique. Les stocks risquent de ne pas suffire. La situation des prix est préoccupante. Mais je crois que le meilleur moyen de les faire baisser est encore d'améliorer l'efficacité énergétique, notamment dans les transports.

OPEC refuses to produce more, saying that the market is well supplied. Are they responsible? OPEC knows the facts: the markets are not sufficiently supplied. It must increase its production. It is quite possible that it will do so in the coming months, discreetly. Today, we have a seasonal and misleading oversupply. Refineries should be working at full capacity to produce gas for this summer and to respond to strong 3rd and 4th quarter demand for domestic fuel. Stocks might not be sufficient. The price situation is worrying. But I think that the best way to get them down is to improve energy efficiency, especially on the transport front.

So: confirming market tightness and worries for the rest of the year, and essentially begging OPEC to put more oil on the table - while appearing to say "don't worry, we are dealing with this behind the scenes, trust us". A strange mix of messages...

Le thème du déclin rapide de la production pétrolière a ressurgi. Votre réflexion a-t-elle évolué sur ce point ? Je ne crois pas aux analyses des tenants du "peak oil". Le fondement de leur théorie, c'est de dire que l'on ne trouve plus de gisements géants. Pourquoi ? Parce que les réserves sont dans des pays où les compagnies nationales ont le monopole. Pourquoi voulez-vous, aux cours du pétrole actuels, que la Saudi Aramco fasse de l'exploration-production ? Les réserves géologiques restent très abondantes, mais se trouvent dans des régions fermées aux investissements occidentaux, comme le Moyen-Orient, ou de moins en moins ouvertes, comme la Russie et le Venezuela. Il est vrai que les zones d'exploration sont aussi des zones difficiles à exploiter (Grand Nord, offshore profond). Les grandes compagnies comme Exxon, Shell, BP ou Total ont un sérieux problème : leurs cibles se raréfient. Le problème essentiel, pour la sécurité d'approvisionnement, c'est que le monde va dépendre d'un nombre de plus en plus réduit de pays producteurs. Si, en plus, ils

The theme of rapid oil production decline has cropped up again. Has your position changed on this topic? I do not believe in the "peak oil" theories. The foundation of their theory is that we no longer find giant oil fields. But why is that? Because reserves are in countries where national companies have a monopoly. Why would Saudi Aramco want, with current oil prices, to do any Exploration & Production? Geological reserves remain abundant, but are in regions closed to foreign investors, like the Middle East, or increasingly hostile, like Russia or Venezuela. It is true that current exploration zones are hard to put into production (far north, deep offshore). Big oil companies like Exxon, Shell, BP or Total have a serious problem: their targets are getting scarce. The main problem for security of supply is that the world will be increasingly dependent on a shrinking number of countries. If, in addition, they cannot invest for various reasons, the war in Iraq, political or

ne peuvent pas investir pour différentes raisons, la guerre en Irak ou des freins politiques et administratifs en Iran, on va au-devant de gros problèmes." administrative brakes in Iran, we go towards big problems."

The question was loaded, starting as it did with the "rapid decline" of oil production, which is probably not the first thing that can be said about peak oil. and it draws the usual denial (which Mandil delivered to me in person (he knows me and that I'm a blogger...) a couple of weeks back when I [met him at an energy conference in Brussels](#)). But Mandil's longer response is worth commenting in detail:

- he is, like the IEA, unambiguous on the shrinking resource base directly controlled by "friendly countries" and, more widely, available to Western oil majors. The IEA report last week was quite scathing on these companies' preference for dividends and share buy-backs over investments, but he is more focused here on the fact that these companies simply no longer have access to reserves. As I've noted before, these companies have seen their production shrink in the past 5 years, despite the record oil prices.
- his main argument against peak oil is that countries like Saudi Arabia and Iraq are under-explored and have plenty of untapped resources (he made that point more explicitly to me orally at that conference). So peak oil is simply not a worry because the resources are there, we just don't have access to them (and thus don't know about them)
- while that argument above is a matter of belief, in the absence of proof (and we can certainly argue that the burden of proof should be on him and not on the peakoilers in that instance), in practice it matters little because, as he specifically notes, these reserves are (i) not accessible and (ii) controlled by entities that have no incentive to put them in production and every incentive **not to do so**. So the corresponding production, *from his very admission*, is unlikely to take place. Whether it is for geological or political reasons is fundamentally irrelevant - **the oil will not be there**, or, in any case, not in the volumes desired.
- in effect, Mandil confirms that previous statements of his agency about a coming crunch and the utter inadequation of demand to supply. Furthermore, he notes that supply, even as it is constrained, will nevertheless be increasingly concentrated in unfriendly hands, a dire warning whatever the cause.

So, to his credit, Mandil put the blame squarely where it belongs, and points in the right direction for solutions:

Comment analysez-vous la reprise en main du marché par les producteurs? Les pays consommateurs en sont largement responsables. Ils ne veulent pas se lancer dans une politique d'efficacité énergétique, pourtant la moins coûteuse. C'est une priorité absolue. Il faut notamment prendre des mesures sévères dans le secteur des transports comme la surtaxation des grosses cylindrées, la réduction des 4 × 4, les limitations de vitesse...

How do you analyse the domination of the markets by producing countries? Consuming countries are largely responsible. They do not want to launch energy saving policies - despite the fact that these are the cheapest available. It's an absolute priority. We need to take tough measures in the transport sector, such as stiff taxes on large cars, limitations on SUVs and speed limits...

We are responsible. Not the evil Russians, Saudis or Iranians. They are our dealers. That's bad, but it's just a consequence of our addiction. Ending that addiction will require changes, some of which appear wrenching or painful, but which are necessary, and which will in fact free us. At

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least Mandil, despite his (officially motivated?) soothing - if wildly optimistic - words about Saudi reserves, is right about where the blame lays - and where any solution can start.



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