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Oil crunch 'will cripple recovery'

Production in world's biggest fields has already peaked, expert warns

By [Steve Connor](#)
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The world is heading for a catastrophic energy crunch that could cripple a global economic recovery because most of the major oil fields in the world have passed their peak production, a leading energy economist has warned.

Higher oil prices brought on by a rapid increase in demand and a stagnation, or even decline, in supply could blow any recovery off course, said Dr Fatih Birol, the chief economist at the respected International Energy Agency (IEA) in Paris, which is charged with the task of assessing future energy supplies by OECD countries.

Dr Birol said that the public and many governments appeared to be oblivious to the fact that oil is running out far faster than previously predicted and that global production is likely to peak in about 10 years -- at least a decade earlier than most governments had estimated.

The first detailed assessment of more than 800 oil fields in the world, covering three-quarters of global reserves, has found that most of the biggest fields have already peaked and that the rate of decline in oil production is now running at nearly twice the pace as calculated just two years ago.

On top of this, there is a problem of chronic under-investment by oil-producing countries, a feature that is set to result in an "oil crunch" within the next five years which will jeopardise any hope of a recovery from the present global economic recession, Dr Birol said.

Crisis

In a stark warning, Dr Birol said that the market power of the very few oil-producing countries that hold substantial reserves of oil -- mostly in the Middle East -- would increase rapidly as the oil crisis begins to grip after 2010.

"One day we will run out of oil and we have to prepare ourselves for that day," Dr Birol said.

The IEA estimates that the decline in oil production in existing fields is now running at 6.7pc a year compared to the 3.7pc decline it had estimated in 2007.

"People will see it in terms of higher prices, much higher than we see now. It will have an impact on the economy, definitely," Dr Birol said.

"It will be especially important because the global economy will still be very fragile. Many people think there will be a recovery in a few years' time but we will have the risk that the recovery will be strangled with higher oil prices," he said. In its first-ever assessment of the world's major oil fields, the IEA concluded that consumption of oil was "patently unsustainable".

Oil production has already peaked in non-Opec countries and the era of cheap oil has come to an end, it warned.

"Many governments now are aware that at least the day of cheap oil is over. [However] I'm not very optimistic about governments being aware of the difficulties we may face in the oil supply," Dr Birol said.

- *Steve Connor*

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