

Q&A

1. The Taskforce report

What is different in this analysis of peak oil – I've read hundreds?

This is the first time leading businesses have warned that a peak in cheap, easily available oil production is likely to hit by 2013, posing a grave risk to the UK and world economy. The warning comes from a broad spectrum of industry (Arup, FirstGroup, Foster + Partners, Scottish and Southern Energy, Solarcentury, Stagecoach Group, Virgin Group, Yahoo).

The Taskforce report is more than just a warning of the risks - it also sets out a series of practical recommendations for Government action and the opportunities that arise from peak oil.

Can you summarise what is new/different in this report?

A. The effects of peak oil will be felt in the next five years - during the next term of government

- High oil prices combined with the credit crunch had a profound effect on the UK economy this year. The UK needs to plan for the impact of this scenario in the longer term.
- The Taskforce anticipate oil prices much higher than the existing record in the near future.
- When the oil price was near \$150 earlier this year, panicking politicians flew around the world trying to do something about it. Even with significant reductions in demand, we risk oil prices far higher than \$150 after peak oil hits.

B. Peak oil is more of a security threat than terrorism

- The risks to UK society from peak oil are far greater than those that tend to occupy government risk-assessment, including terrorism. As easily and cheaply available oil supplies fall off, high oil prices will become a long-term trend having profound direct and indirect economic impacts:
 - Increased oil-based input costs for manufacturing and agriculture
 - Increased transport costs throughout the supply chain
 - Wider macro-economic shocks via higher inflation, balance of payments deficit and reduction of consumer demand.

C. The UK Government needs to re-prioritise peak oil as a more imminent threat than climate change

- Currently the Government places climate change as the first priority for policymaking, followed by energy security, with peak oil in last place.
- In contrast, the Taskforce analysis is that peak oil is more of an immediate threat to the economy and people's lives than climate change. The Taskforce is not saying that climate change is less important but that the impacts of a decline in easily and cheaply available oil will hit us before the worst impacts of climate change. The Government needs urgently to reflect this threat in their analysis and planning.

2. How high will the oil price go, and when?

By 2013 we anticipate that oil prices will be escalating rapidly, rather as they did in the first half of 2008. But in 2013 and beyond, should there be a rapidly widening

gap between demand and supply as we fear, there will be little to restrict the upward movement other than economic collapse. The prices will be higher.

2. The new reserves theory

But the oil industry claims to have made huge finds recently?

The Taskforce fears over-optimism in the global oil business, mirroring that recently exposed in the financial services sector.

- Recent Brazilian finds will only yield around a year's worth of supply more than a decade from now - and are a blip in the trend of declining discoveries
- Lord Oxburgh - the former Shell Chairman - says in the foreword of the Taskforce report that significant "easy oil" discoveries are a thing of the past - the report shows why

As for oil companies and government thinking our analysis is misguided, let's not forget that the banks and the Treasury completely failed to see the credit crunch coming. Why should we necessarily expect oil companies and the Department of Business/Ed Miliband's new Department of Energy and Climate Change to be prescient about the oil crunch?

But the oil industry says that there are well over a trillion barrels of proved reserves, and several trillions more in tar sands. In a world burning oil at not much more than 30 billion barrels a year, that means decades of supply before we need worry?

- Peak oil happens when flow-rate capacity coming onstream from oil discoveries fails to exceed declining flow-rate capacity from depletion of existing reserves. Peak oil is more a problem of flow rates than reserves. The consulting editor of Petroleum Review shows in the report how the flow rates from reported oil discoveries drop below depletion rates by 2013
- If we think of global oil reserves as a water tank, it's the state of the tap you need to worry about. If it is faulty, you won't get enough water out. We think the oil tap is faulty, and a lot of water is going to stay inaccessible in the tank.
- Melting tar is far slower than lifting liquid crude out of the ground. Easy oil is depleting by at least 3.5 million barrels a day of capacity each year, and the oil industry can't squeeze more than 2.5 million barrels of capacity from the tar sands
- Plus mining the tar sands creates a huge volume of greenhouse gas emissions and so it is likely to be curbed

3. Credit crunch

Surely the concept of peak oil is meaningless as oil prices and demand are going down as a result of the credit crunch?

Despite the immediate fluctuation of oil prices, we need to get used to the high prices we have experienced in recent months because:

- Continuing growth in demand in China and India is likely to drown out any demand reduction from structural changes in the west
- The oil industry is relying on aged oilfields, aged infrastructure, and an aged workforce as oilfields are becoming more difficult to find and are taking ever longer - up to a decade - to bring onstream
- Oil and gas exporters are going to start keeping their oil and gas for use at home

In any case, invoking global recession is hardly the best way to deal with the prospect of an oil crunch. We should be able to do better than that, and we can. The

Taskforce argues that if we accelerate the green industrial revolution already underway, we will surprise ourselves with how quickly we can reverse out of oil dependence. We explore that positive vision in some detail in the report.

Isn't the financial crisis the immediate priority and won't everything else, however serious, have to wait till financial markets stabilise?

All three crises - credit, climate and oil - are deadly serious and have to be dealt with at the same time. Lord Stern, former chief economist at the Treasury, has argued that a £ invested today will avoid £10 in damage from climate change in years to come. The same is true of investing today to head off the impact of an oil crunch on the economy. We don't have a figure for the ratio of pain avoided, but we suspect it is higher than 10.

(Note: The Stern Review actually had a ratio of 1:20, but recently Lord Stern confessed he had underestimated the pace and costliness of climate change damage and halved his estimate for the ratio).

Yet more bad news for UK plc and consumers on top of the credit crunch? The potential good news that falls out of the current global economic crisis is that the slowdown will buy the government a couple of years and that time can be used to invest in renewable infrastructure at a time of greater availability of capital assets and higher unemployment. The current crisis is an opportunity for the Government to invest.

So peak oil is good news for climate change because it will force us into a low carbon world? Mightn't it actually make things worse?

It is dangerous to talk of good news, when shrinking oil supply will pose such problems for people, perhaps especially the developing world. But it is true, as we point out in the report, that reactively mobilising for peak oil will be easier than proactively mobilising for climate change, because the difference is that we will be forced to do it. Provided we avoid the technologies that would make the climate problem worse, like oil-from-coal and tar sands, we can fashion a great big silver lining to this cloud. The taskforce is arguing essentially for proactive and rapid mobilisation against both the oil- and climate-change threats: at a faster rate than we might if we mobilised against climate change alone.

If the current economic setback is protracted, as seems possible even likely, what will be the impact of peak oil on it, and vice versa?

Counter intuitively, it looks as though it will bring peak forward rather than delay it. This comes about because oil companies with strong balance sheets will find takeovers an easier and less risky way to increase capacity. Financial caution will prioritise keeping to budget over keeping to schedule. Many non-Opec projects will be cancelled or delayed in the face of current low prices and the risk of low prices going forward. This will hit Canadian tar sands incremental projects as well as deep and difficult offshore projects of the kind Shell attaches such importance to in our report, in their quest to keep global oil production on a plateau. Opec may well also rest on their shovels. Delays and cancellations will most likely offset demand falls.

4. The Taskforce calls/solution

So what do you want the government to do about it?

- Prioritise the peak oil threat and develop a strategy to address it
- Dramatically and rapidly increase investment in clean energy and renewables
- Develop and implement a long term sustainable transport policy, with renewable energy sources at its heart

Isn't Ed Miliband going to take this on now he is in post?

The Taskforce welcomes the new Department of Energy and Climate Change headed by Ed Miliband and is encouraged by the steps he has taken to commit the UK to cut greenhouse gas emissions by 80% by 2050 and to introduce 'feed in' tariffs for renewable energy. The Taskforce demands he urgently prioritises the peak oil threat and develops a strategy to address it.

Are you seriously saying that we could run the country on renewables? What about coal and nuclear?

Renewables - many in the renewables sector say they can run the entire economy within 20-40 years. Renewable technologies are highly disruptive and can penetrate traditional markets fast – witness the transport sector which is morphing in front of our eyes. It shows the scope we have for cutting global energy demand and changing supply if we try.

Coal - Carbon capture and storage is at least ten years from commercial-scale production, maybe twenty. Advocates have to prove CCS can cost less than renewables and efficiency, or even work, before then. And we cannot go on burning coal without CCS, because of climate-change.

Nuclear - The third generation of reactors can't be ready before 2018 at the earliest, and the peak oil will hit by 2013. We need technologies that can be mobilized very quickly, like many of the renewable and efficient-energy technologies. Nuclear can be part of the mix later, but uncertainties over the current nuclear renaissance must not hold up the deployment of renewables and efficiency for a moment.

5. Peak oil and climate change

How can the peak oil issue be more important than global warming?

The Taskforce is not saying that climate change is less important - but that the impacts of a decline of easily and cheaply available oil - will hit us before the worst impacts of climate change. The Government needs urgently to reflect this threat in their analysis and planning.

Is peak oil good news for climate change – will it force us into a low carbon world - or could it make things worse?

Peak oil is potentially good news for climate change because the solution to peak oil risk – rapid investment in renewables – is also the solution to addressing climate change.

6. Taskforce general

What is The UK Industry Taskforce on Peak Oil and Energy Security

The UK Industry Taskforce on Peak Oil and Energy Security is a group of British companies, variously concerned that threats to energy security are not receiving the attention they merit. The aim of the first report is to engage government more proactively on the peak oil threat, and also to alert fellow businesses and the public to the problem. It aims to encourage collaborative contingency planning by government, industry, and communities on measures that can be taken to accelerate independent energy supply within the UK.

Several of the companies in the group will benefit from getting people out of cars and onto public transport, and several are energy or energy-related companies who will profit from a push for renewables. Why should we believe anything you say? We genuinely believe that time is running out, and that letting peak oil hit us without preparing will be bad for everyone, including transport companies and renewable energy companies.