Opinion & Analysis

Plan for oil crisis by setting high 'floor price' for fuel

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More expensive petrol helps convince consumers that their dependence on oil is unsustainable

WHAT WAS last year's biggest international news story? For many, it had to be the dramatic election of a new US president in November. That was also the month in which the International Energy Agency (IEA) published its 2008 *World Energy Outlook*.

As global media coverage lurched from Obamamania to despair about the unravelling financial markets, the IEA report barely made a ripple. Yet it is arguably the most profoundly important story of the new century. The fathomless implications of what the IEA has spelled out hasn't yet hit home with our politicians, media or public.

This is odd, since the future of industrial civilisation hangs in the balance. We now know with certainty, from the world's leading energy authority, that the end of cheap, plentiful oil is almost upon us. The imminent arrival of what is known as peak oil is, notwithstanding the current dip in oil prices, a mathematical certainty.

The facts are as follows: oil discoveries actually peaked in 1965 and have been in continuous decline ever since. Production lags several decades behind discoveries, and now, the decline of oil production is itself in train. It's a one-way ticket from here. Overall, output from the world's oil fields is falling precipitously, at between 6.7 and 9 per cent a year, according to the agency. New discoveries and alternate fuels simply cannot keep up with the profligate 3.6 million barrels an hour that are now burned globally.

Yet just a couple of years ago, the same IEA was itself still in denial about the depth of the looming energy crisis, dismissing predictions about peak oil as being the talk of doomsayers. It's strangely reminiscent of all those assorted experts who until very recently were telling us Ireland's economy was fine, as long as we didn't "talk it down".

Lead author of the agency's energy outlook, Fatih Birol, says that, even assuming a ramping up of investment in oil exploration, "global conventional oil . . . will come to a plateau around 2020". He's being polite. For plateau, read precipice.

Our two centuries of industrial and technological development have been built on access to cheap energy, with oil the dominant fuel of the last 100 years. Without dirt-cheap oil, food production could never have sustained a world population of even half today's level. It is also the black blood of globalisation and international commerce.

"The world has never faced a problem like this," according to a report on peak oil published by the US department of energy in 2005. "Without massive mitigation more than a decade before the fact, the problem will be pervasive and will not be temporary." Oil peaking will, it says, "be abrupt and revolutionary".

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The key finding of this US study, known as the Hirsch report, is the understanding that it will take action on the part of industrial civilisation more than 10 years ahead of peak oil to avoid disruption and collapse. This would be on a scale that would make the current financial meltdown feel like the good old days.

That means that right now, in 2009, is when we have to begin radically reinventing our relationship with energy. While the move to renewables must now become an immediate Irish national emergency project, realistically the very best this can achieve is to cushion our ejection from the cocoon of cheap oil. Get used to it: the era of constant economic growth is effectively over, and we face a near future where hyperabundance will be anything but the norm.

We got an appetiser of peak oil last July, when prices approached $150 a barrel. Rising petrol prices so spooked US motorists that, in a matter of months, the wheels fell off their decade-long infatuation with SUVs. Last year was the first time since 2000 that regular cars outsold SUVs and light trucks in the US.

Fear is a powerful antidote to complacency; fear of being unable to afford to drive at all has effected a sea change in seemingly entrenched behaviour among both consumers and manufacturers. However, like adrenaline, fear may be as short-lived as it is powerful. Prices at the pump in Ireland have since plummeted to around 95 cents a litre. Evidence from the US is already suggesting that sales of SUVs are rebounding.

This column suggested two months ago that Minister for Finance, Brian Lenihan could give our straitened State coffers a timely and relatively painless fillip by setting a permanent "floor price" for motor fuels. As well as raising cash and lowering carbon emissions, this would also send a clear price signal to the public that reducing our chronic oil dependence is the only game in town.

Every spoonful of oil burned in Ireland is imported. As shortages bite, who exactly are we counting on to continue supplying our energy, at any price? A reminder of our vulnerability was delivered this week, when Russia ominously turned off the natural gas spigot to much of Europe.

The notion of a floor price has at least one advocate at the Cabinet table in Minster for Energy, Eamon Ryan. The Machiavellian beauty of this scheme for Fianna Fáil is that Lenihan pockets the tax windfall, while the Greens get the blame. The idea is even gaining traction in the tax-averse US. "A gasoline tax would do more for American prosperity than any other measure Obama could propose," according to Michael Mandelbaum of Johns Hopkins University.

Next week, I'll examine what a world beyond peak oil might look like, and how we could best brace for "powerdown".