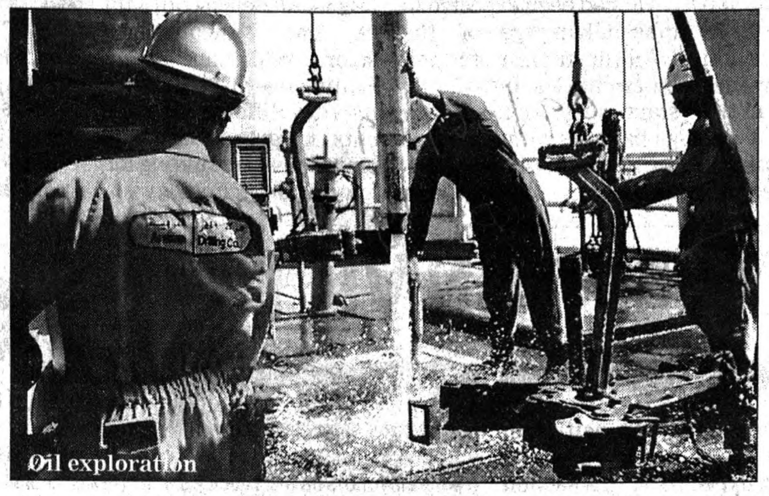
09 - 07 - 2009 - Daily Mirror.

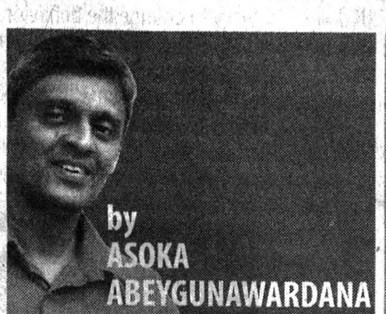
News_GEOC_2009 - 1.pdf.

WORLD OIL PRICES DOUBLED DURING THE LAST 6 MONTHS..!

The price of oil is on the rise again. It reached 70 USD/barrel mark last week. The oil price has doubled during the last 6 months, as it was at 34.5 USD/barrel at the beginning of this year. Society was, however, not particularly agitated by this rapid increase, as they had experienced a similar phenomenon last year. During the first half of the last year the oil prices increased from 90 USD/barrel to 140 USD/barrel; a 55% increase. What is more important, however, is that the oil prices dropped from 140 to 34 USD/barrel: a 300% drop during the second half of 2008.



Oil exploration

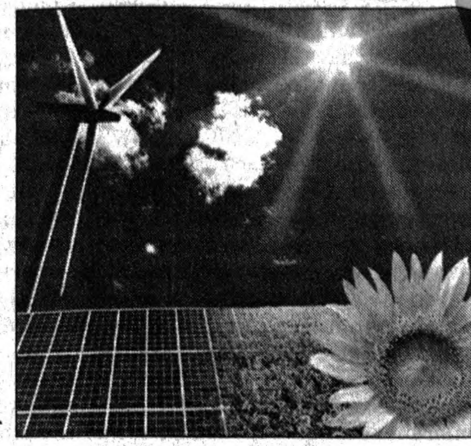


by ASOKA ABEYGUNAWARDANA

Fluctuation in oil prices over the years due to supply and demand market mechanisms is a common phenomenon; however there were instances whereby the oil prices changed rapidly due to reasons beyond supply and demand principles. One major noticeable price hike was experienced in the early 1970's. The reason behind this rapid increase was the Club of Rome Report. The report, entitled 'Limits to Growth', examined the predicament of mankind. Its conclusions were stunning. It was published in 30 languages and sold over 30 million copies. According to the report the world would eventually run out of many key resources. The depletion of resources would be the ultimate predicament of mankind. In the 1970's the Club of Rome wrote that the world would run out of oil during the next 3-4 decades.

In order to maximise their profits from this finite resource, the oil-producing countries rapidly increased the oil prices. As a result the demand for oil was reduced for a shorter period and then increased again. Ironically, the long-term result of this crisis was the Gulf war which helped to maintain the oil prices within a certain range.

Amid the threat of scarcity of oil reserves, the oil prospecting companies redoubled their efforts during the 1980's, but with little success. From 1980 onwards the use of fossil fuels every year exceeded the amount of new deposits found within the same period. It can thus be said that reserves effectively reached a peak in 1980. If we continue to increase oil consumption at the current rate then human civilization will run short of oil with in a short period. The Energy Watch Group-2007 report shows total world Proved plus Probable reserves to be between 854 and 1,255 Gb.



Energy efficient technologies

If we are to reach the peak in consumption of oil then the growth in demand must be reversed; which means no new oil fired power plants or vehicles. If this can be achieved then the world's oil reserves will be sufficient for the next 30 to 40 years. It would seem, however, that we are some way off reaching the peak in demand for oil. Some 80% of the world's population lives in developing countries. Economic growth and development based on the western model entails an increase in demand for oil. Some experts estimate that the peak will be reached by 2010 – 2012, which is just around the corner.

The current rapid fluctuations in the global oil price are not the result of simple supply and demand theory, but a warning bell for the depletion of world's oil reserves. The alternatives to oil are renewable energy technologies, but these cannot compete in an environment in which oil prices crash dramatically and frequently. Governments must intervene at this stage to stabilize the price of oil to the consumer, to ensure a smooth transition from the fossil fuel era to the post fossil fuel era: The Renewable Energy Epoch... or the Epoch of Frugality? When global oil prices are low the benefits should be passed not directly to the consumer, but to develop renewable energy sources and energy efficient technologies. When the oil prices are rising the governments should not subsidize fossil fuel but should encourage the general public to switch from oil to renewable energy and energy efficient technologies.

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