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## Face value

**The only way is down**

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**The high priest of "peak oil" thinks world oil output can now only decline**

Fifth Ring

FOR a man who believes that the world as we know it is coming to an end, at least as far as energy is concerned, Matthew Simmons is remarkably cheerful. He magnanimously excuses *The Economist's* poor record of predicting the price of oil: our suggestion in 1999 that oil would remain dirt cheap was conventional wisdom at the time, he says soothingly. He also shrugs off our more recent scepticism about his belief that the world's production of oil has peaked: he, too, hopes that "peak oil" proves to be a myth, he says. But over a 40-year career in investment banking, Mr Simmons adds, he has learnt never to rely on wishful thinking. Most of the world's oil analysts, he believes, are far too optimistic about how long existing fields will last, the prospects for new discoveries, technology's ability to unlock new sources and to extend the life of existing ones, and so on. He prefers to rely on data rather than daydreams. And according to the American government's own numbers, the world's oil output has been more-or-less flat since 2005.



It was data that made Mr Simmons famous. He spent the summer of 2003 at his holiday home in Maine, poring over technical studies describing the state of Saudi Arabia's oilfields. Although the Saudi authorities do not release much evidence to support their claims of vast oil reserves, engineers from Saudi Aramco, the state-owned oil firm, do give talks at conferences and publish papers about their experience of reservoir modelling and management. Based on these, Mr Simmons concluded that Saudi Arabia's biggest fields were already past their peaks, required ever more expensive technological fixes to prop up production and would soon enter a period of inevitable and rapid decline.

Saudi grandees pooh-poohed Mr Simmons's 2005 book on the subject, "Twilight in the Desert: the Coming Saudi Oil Shock and the World Economy". But others held it up as convincing proof of the notion that the world's oil production would soon reach a pinnacle, never to be exceeded. Saudi Arabia, after all, is already the world's biggest producer, and is expected to cater to most of the growth in demand for oil over the next few years by expanding its output yet further. If, instead, it pumps less, there is little hope that other countries could make up the shortfall. In that scenario, as demand for oil continues to grow despite dwindling supplies, and as the search for substitutes proves fruitless, economic catastrophe ensues.

Mr Simmons helps to lend credence to this view in part because he is an old and respected hand in the oil business. He first stumbled into it in 1969, thanks to a chance encounter at a hotel in Palm Springs. He was two-thirds of the way through a doctorate in economics and had planned to join his father's bank in Utah when he finished. Instead, he ended up abandoning his studies to help raise venture capital for a pioneering firm of divers working on California's offshore oil-rigs.

Simmons & Company, the investment bank Mr Simmons went on to found (along with Michael Huffington, an oilman and politician), helped to funnel money and financial advice to the nascent "oil services" industry, which performs tasks such as seismic surveys and drilling wells on behalf of oil firms. Indeed, Mr Simmons says it was his bank that coined the very phrase "oil services". It has handled over 500 merger-and-acquisition deals

in the industry—49 of them last year alone.

All this means that Mr Simmons can draw upon long experience and deep knowledge of the oil industry. He does not dispute the main criticism of the “peak oil” theory: that improvements in technology, spurred by high prices, will eventually allow new fields to be found, more oil to be recovered from existing fields and artificial oil to be conjured from substances such as tar sands, coal and shale. But he thinks such advances will take longer to appear and have less of an impact than his detractors assume.

As it is, he points out, all the world’s drilling rigs are working flat out, and old ones are being retired faster than new ones can be produced. The same is true of geologists and many more of the industry’s essential inputs. This is slowing the development of new fields and pushing up the cost. By the same token, the technology being used to extract oil today has been in the works since the 1970s. It will take a long time for the next generation of clever kit to come into widespread use. Besides, many technological improvements seem to have simply speeded up the extraction of oil, rather than increasing the share of each reservoir that can be recovered.

## **Oil clocks out**

In short, as Mr Simmons readily concedes, the debate between proponents and critics of “peak oil” boils down to an argument about timing. The optimists think that technology will advance quickly enough to offset declining production from mammoth fields such as those Mr Simmons studied in Saudi Arabia. But he and his disciples think the declines will come too soon, and be too sharp, for the world to adapt in time. The whole row could easily be solved, he says, if Saudi Arabia would only allow independent auditors to assess its reserves.

In the meantime, Mr Simmons is taking no chances. He plans to start up a farm near his house in Maine, in case the supply chain that provides America with food breaks down for lack of fuel. He plans to fertilise his fields with manure, rather than chemicals derived from oil and natural gas. He thinks globalisation must stop, and that as much trade as possible should be conducted by boat, to conserve whatever oil remains.

But Mr Simmons has not despaired. He holds out great hope for wave energy, and believes that at least one of the many different species of seaweed found along Maine’s coast will yield oil that can be turned into biofuel. He has got Simmons & Company involved in alternative energy. It is a brave choice for someone who is so pessimistic about technology.

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