OPINION

How long can $2.50 a gallon gas last?

By Randy Udall and Dave Bowden
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Colorado motorists are now paying about $2.50 for a gallon of gasoline. After the sticker shock of 2008, when the price hit four bucks, that's a real bargain, but how long can it last?

Predicting oil prices is tricky, but our guess is that we may enjoy cheap gasoline for another year or two. After that, all bets are off.

Oil prices have fallen by half due to the global recession, which has suppressed demand by one million barrels per day in the U.S. As the economy recovers, however, American motorists will increasingly find themselves competing with first-time drivers in China and India. China may soon be the world's largest market for new cars. VW sold 125,000 cars there in July. In India, newly prosperous consumers purchase 100,000 Tata Nanos each month.

"Everyone who buys a Tata gets a straw to suck at a world gasoline supply that has not grown in the last four years," says Canadian energy expert Jeff Rubin. "And the more they suck, the less we can."

On the exploration front, 2009 has been the best year in a decade. Since January, more than 10 billion barrels have been discovered in the Gulf of Mexico, Angola, and elsewhere. Tremendous finds in the South Atlantic have some wondering whether God is Brazilian.

The sobering news is that the world will consume 30 billion barrels this year, while it can take six to ten years for a new deepwater discovery to produce its first oil.

Brazil's Tupi field, for example, lies 20,000 feet beneath the surface of the sea, where a single well can take months to drill and cost $100 million. And for every country like Brazil, whose production is increasing, there's a nation like Norway or Mexico, whose production is falling. Discoveries get the headlines, but depletion never rests, and rarely gets its due.

Each year, depletion - the natural decline of older fields - filches about five percent of current global production. This means that oil companies need to find and develop a new Saudi Arabia's worth of oil every three years simply to stay where they are, a heroic challenge.

Mexico's Cantarell field is a poster child for the phenomenon. In 2004, it produced 2 million barrels a day, but output has now plummeted to 700,000.

The U.S. currently imports 1 million barrels a day of Mexican oil, but by 2015 the Mexicans are unlikely to export any.

Evaluating the situation, Sadad al Husseini, former vice president of exploration for Saudi Aramco, concludes, "There is not enough new capacity coming on line within the next five years to make up for global declines. When deepwater drilling ships cost $500,000 a day to operate, you can't afford cheap oil anymore," says al Husseini. "That's the new reality."

In 1945, when the GIs came home from World War II, the entire planet was running on 10 million barrels a day, most of it produced in the U.S. During the next half century, global oil production expanded eightfold.

Along with advances in science and technology, this once-in-a-planet development was a prime mover in creating middle class prosperity, suburbia, the shopping mall, and interstate highway system. Americans grew accustomed to consuming their body weight in petroleum each week, and driving the distance to the Moon every 20 years.

With GM in bankruptcy, and auto sales crashing, we are well into a new era. Katsuaki Watanabe, the President of Toyota, is one of many who believe that "oil production will peak in the near future." The Chinese agree, and are busily scouring the globe, buying up petroleum assets.

A peak or plateau in global oil production is not a crisis, but an opportunity to conserve, innovate, and rebuild our transportation infrastructure. Peak oil is a chance to diversify our economic base and move away from what will likely be increasingly scarce and expensive oil.

"Crude oil, 20 years from today, will be viewed as a very valuable commodity," says al Husseini. "We can't blame Detroit for not knowing that we're running out of cheap gasoline. It's the role of government to highlight these issues and come up with solutions, rather than try to sugarcoat the outlook."

Randy Udall is a Carbondale energy analyst. Dave Bowden is executive director of the Association for the Study of Peak Oil-USA. The future of global oil production will be discussed by 50 speakers at ASPO's 2009 Peak Oil Conference, October 11-13th in Denver (www.aspo-usa.com). EDITOR'S NOTE: This is an online-only column and has not been edited.