

Have we reached peak oil?

I just finished reading Jeff Rubin's book "Why Your World Is About to Get a Whole Lot Smaller: Oil and the End of Globalization". Was a good thought provoking read. In summary, Rubin is stating that the world has reached peak oil production and that ultimately prices will continue to increase post economic crisis and supply will continue to dwindle. The ultimate effect of this on society is that transportation costs will increase so high that it will no longer be economic to source goods from low labour cost countries like China and others. The cost of transportation will more than offset the lower production costs. The result will be a return to building factories much closer to market. So in the case of North America, jobs will return as making product locally will once again become economic.

In fact there are really two issues as I see it, combined into one. On the one hand, he notes that transportation costs will become so high that we move jobs closer to home. On the other hand, the high cost of oil will mean that we won't be able to sustain our current standard of living so we will have to do with less.

I think that a good case is made with some evidence that we may indeed have achieved peak oil. The case for the world getting smaller is somewhat more anecdotal in nature. Rubin also accepts that people are smart and that technology may indeed come to rescue although he does not think it will come fast enough for us to avoid large structural change in our economies.

There have been numerous reviews of this book so I will not try and do another review. In my case, I would like to focus on making a few points that came to me as I thought about these issues. And yes, the book does make you think.

First, while the world may try and get smaller once again as it was in the past, we cannot forget the great strides in communications technology. So while we may not be able to travel as much, we will continue to be aware of the goings on all around the world. The internet will continue to bring us together with increasing global collaboration. Just imagine all of the ways that improved technology can reduce oil use. And we know from this recession that it doesn't take a really huge drop in demand for oil prices to fall. Think of all of the communications technology that can reduce consumption. For example, how much oil does it take to print and distribute newspapers? Well, it now looks like the future will have paperless newspapers fed to us on e-readers. How about magazines? Books? If we eliminate these from use (or even reduce their use dramatically as a start) what will the impact be? No oil to ship the paper to the factory, no printing requiring energy, no packaging and most of all, no distribution. And this is only one example. How about business travel? Of course, it will never go to zero but with improved video conferencing the need to travel by plane to far away places or even by car somewhere closer is being reduced. Look at the reductions in business travel already apparent in this recession. In these cases, it means that we will hopefully be able to use oil to transport only what needs to be transported as we get more efficient and reduce overall transportation.

He discusses climate change as well. This is also an important point. The global concern about carbon emissions is leading us to price carbon, thus increasing the cost of oil from its normal economic position. The goal is to use policy to change behaviour and find ways to move off oil to more carbon friendly forms of energy. This means that governments are working to try and encourage fuel switching BEFORE the oil actually runs out due to concerns about its current use – not due to concerns about its scarcity. This should have a positive impact as policies continue to encourage demand

reduction in advance of a global supply catastrophe.

Next, if he is right and factories once again move closer to home, yes, blue collar jobs long lost to far away places may indeed come back home to North America. But the current trend of white collar jobs moving off shore will not be reversed. It is ironic that the man on the factory floor may once again have a good job while the engineer designing the process may more often be in places with low cost professional labour. Engineering, accounting and other professions in the service sector that produce mostly paper will not see their jobs return as the internet will assure that quality work can be done literally anywhere around the world. So does this mean that in the next phase of globalization it is the higher paying jobs that will be moved away to lower cost locations while the low paying jobs return home?

Was an enjoyable read. I am interested in other's thoughts on this book. Let me know what you think.