



The Peak Oil Lexicon

Posted by [Heading Out](#) on May 2, 2005 - 11:45am

ProfG has [just shown us](#) that the term "Peak Oil" has begun its climb to more common usage.

As it comes to pass we will start to hear a new set of words, different euphemisms that will be used to gloss over the worsening situation. I suspect that one of the first of these will be "Demand Destruction." It has already hit my attention twice this past week.

What "Demand Destruction" means, in simplest terms, is the reduction in demand because the price gets high enough to change people's habits, and their demand for, and use of oil is destroyed because they can no longer afford to use it. It is a coming problem because a decreasing supply at ever increasing prices may well destroy some demands permanently.

The [graph](#) posted the other day shows that the largest portion of the oil we use is for transportation. Of the total 19.7 million barrels of oil used every day (mbd) some 8.8 goes in motor gasoline; distillate fuel oil (mainly diesel) is 3.8 mbd and about 1.6 mbd is kerosine/jet fuel mainly used as aircraft fuel. By taking only the "mainly" bits we get a total of 13.1 mbd used for transportation.

So if the earliest impact of the Peak Oil arrival is the failure of supply to meet demand before the end of the year, it is the transportation sector of the economy that will take the biggest hit.

If the supply reduction in the world were say, a shortfall of 500,000 barrels a day (bd) then the US share may be about a quarter of this. A drop of 125,000 bd out of a total of 13.1 mbd is about 1%. We have seen a lot worse situations develop before. The difference this time is that this will be the marker to a period where each year the available supply will drop by at least this amount.

The [Hirsch report](#) (named after its chief author, referred to earlier as the SAIC report) points out that is going to take 20 years to counter its effects, providing this is all done before Peak Oil hits. The corollary to that is that if it arrives this Thanksgiving it may well take us 20 years to dig out of it.

So each year the supply will get smaller, perhaps initially in 500,000 bd jumps (and only then if the world demand now growing at 2.2 mbd totally stops). As I mentioned the other day from 1973 to 1983 the US dropped its oil consumption by 13%, but a fair bit of this was from the transfer of power supply to other forms of energy. Some also came from our slowing down on the highways. It can be done, and mandated, and initially it might be enough to give us a little breathing room. But it does not appear that it is being considered at this time. And under those conditions market price, on an increasingly rare item, will dictate who can afford to drive. Without Government controls to limit use, it will fall back on the American pocketbook.

And so we must return to the question - the Demand Destruction question - how much more must the price of gas go up before you change your driving habits?

Data, apart from the estimate of decline, is taken from the Hirsch Report

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