

Implications and Impacts of Peak Oil for the Small and Medium Sized Petroleum Producer

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Crude oil production will necessarily peak and deplete from wells, fields, basins, and the planet as a whole, because it is a finite, non-renewable physical resource. Although some experts believe that this peak is passed, it may be delayed for some years. But it will arrive. After the peak clearly passes, depletion of existing reserves will lead to increased price volatility in the global marketplace. Unsatisfied market demand may lead to demand destruction, competitive technologies, or postponed demand. While conventional wisdom suggests that the peaking of oil production will lead to unprecedented rises in the price of oil, some predict severe volatility followed by price collapse. Increased volatility may encourage crude oil futures trading and may drive further jumps in volatility. Crude oil price volatility and commodity futures trading may lead to spiralling economic instability.

Will increased price volatility adversely affect inflation metrics and other broad investment forecasts? If true, the end result may be higher investor hurdles for oil and gas deal sellers. As inflationary pressure from crude oil prices and worldwide economic problems ratchet upwards, will the net present value of oil and gas projects be adversely affected and will this tend to dry up investor funds? Will long-term and even medium-term oil development projects become untenable?

Will burgeoning renewable power projects siphon away significant investment dollars from oil and gas projects? In addition the renewable power industry may also take away valuable government subsidy dollars from petroleum research and day-to-day E&P.

The small petroleum producer will need to focus on domestic and foreign investors whose decision parameters match those of the proposal. Will it be advantageous to tailor proposals to short-term, quick payout prospects rather than those with longer term payout? On the other hand, long-term oil and gas projects may have the advantage of averaging out oil price volatility and may be popular with some investors.

Global oil peaking will become an increasingly important factor in the oil and gas business, both for the small E&P company looking for investor money and for the operator trying to maintain profitability.