

July update

As prices continued to fall throughout May and into June, there has been a renewed debate in the industry as to the long-term prognosis for the price of oil. Yes the current drop in prices is significant (13 consecutive weeks of price falls) and of course they reflect the dire state of the economy. But one day, the crisis will end, growth will return, unemployment will start to fall and oil prices will rise again. Or will they?



there are still 7 billion reasons why oil prices will continue to rise

Portland has long held the view that cheap oil prices in a world of 7 billion population is incongruous, as so many people needing transportation, heating and power can only lead to price rises. This theory has been well-supported by many respected bodies and lead amongst them is the International Energy Association (IEA). They have produced numerous statistical reports showing how China's growth will starve the world of cheap fuel and generate continually rising oil demand every year until 2035. Supporting (and sometimes anecdotal) Chinese statistics such as a threefold increase in private vehicle ownership, a 250% increase in passenger air traffic and the building of 75+ power stations per annum, all act as rather strong supporting facts to support the theory of long-term rising prices.

Shale gas – smashing the status quo

However, for the first time, there are now some dissenting voices. Both the Ricardo Consulting Group (part of Ricardo plc) and BP's Statistical Review (see also page 5) have suggested that Chinese demand may start to tail off after 2020 and may even end up decreasing by 2025. The revisionists suggest that the previous supply and demand forecasts have taken no account of the shale gas revolution, which in the space of 18 short-months has completely transmogrified (is this a word?) the natural gas market. In addition, optimistic forecasts on shale oil production (previously a bi-product of the gas, but now a product stream in its own right) also have the potential to smash the status quo. Yes there is little doubt that worldwide car fleets will rise exponentially over the next 20 years (estimates range from 50% to 80% increases), but how many of these cars will be powered by natural gas or non-conventional oil sources such as shale oil or even the old favourite, biofuels?

Biofuels – bouncing back

It is fair to say that biofuels, along with the renewable fuel sector in general, have taken a virtually mortal beating over the last 5 years, as economic reality and stagnation took a hold of the developed economies. Many of the more outlandish renewable projects were forced back into never-never land, where quite frankly they should have always stayed. But biofuels will bounce back – too much political and financial capital (particularly in Europe) has been invested in this area for it not to be so. Plus of course, recovery brings optimism and memories of rapidly rising oil prices will provide the perfect backdrop for a renewed effort to move away from oil dependence. Add to that the continued improvements in engine technology, car-sizes and weights that are decreasing and a steady rise in public transport and you have strong ingredients for a steady decline in oil consumption – in the West at least.



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But for all of the above, there are still 7 billion reasons why oil prices will continue to rise in the medium and long-term. When the recession ebbs away, the price of oil will rise and previous predictions around ever increasing demand remain more accurate than not. But do avoid the hype – wild predictions on price super-spikes (mostly from our genius bankers) are unhelpful and most likely wrong. There are simply too many opposing price factors in the mix, which whilst not significant enough to keep the cost of oil at a low level, should at least be able to keep things in check.



For more pricing information, see page 26

Portland Fuel Price Protection
www.portland-fuel-price-protection.com

For key facts on the Department of Energy & Climate Change's bioenergy strategy for heat, electricity and transport fuel, please visit www.decc.gov.uk.