

Gulf Gusher and the Price of Oil and Gasoline

Contributed by Jan Lundberg, oil industry analyst
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Culture Change was asked about the impact from the Gulf oil gusher on the price of gasoline in 6 months, 12 months and 18 months from now:

It might be an interesting question for debate, with many possible opinions. There are too many variables to make forecasts with any certainty, so prognosticators would have to exclude all but one or two factors. There are these non-textbook questions: Will hurricanes wreak havoc? Will there be migration and refugees from the Gulf? Could a BP bankruptcy result, triggering broader corporate failures? The dismantling of BP or the massive downsizing and selling off of its assets are possible if criminal penalties plus anticipated fines prove as devastating for the corporation as its behavior has been for the Gulf of Mexico.

We should anticipate that any tightening of supply in the oil market (as opposed to supply in terms of crude reserves), for whatever reason, will result in higher prices. This usually results from a robust and exuberant economy (causing more oil demand), getting us to around \$4 a gallon for gasoline for a time, possibly. Or, we can imagine prices going down due to a shrinking economy. With the latest news on unemployment, economic contraction seems more likely. If there's a stable floor to this recession we could imagine \$2 per gallon gasoline for a time.

This all assumes that the nation continues to stupidly subsidize low oil and gasoline prices, and that no reasonable carbon tax is added to our artificially low oil & refined product prices. We can assume that the government will print yet more money to throw at (1) environmental clean up of the oil gusher, as BP will eventually fail utterly to measure up, and (2) Gulf coast unemployment and subsequent bankruptcies. There may be major strife there, worse than from Katrina. Real solutions will be avoided at all costs: the gov't and corporate media will continue to shun both car-free living and minimizing car dependence. My mitigation proposal, for cutting back on oil production and consumption so as to offset the Gulf pollution, is not taking off (see The Only Answer for Counteracting the Gulf Oil Gusher).

I am not certain the Gulf oil disaster will directly affect oil prices, in accordance with any particular time line, but we do know this event is historic, so effects will be life-altering albeit indirect.

Recalling our steep climb up Hubbert's peak, we witnessed oil and gasoline prices rise with economic and population growth. When there's a spike of skyrocketing prices due to shortage, depending upon severity it may be either a blip or a turning point. If the latter, this will be the final, massive shortage (due perhaps to a disruption in the Persian Gulf) triggering full-blown petrocollapse. What will happen is this: after a few days of people not getting to their jobs by car, and trucks not pulling into businesses (including supermarkets) we will see panic, confusion and total economic

collapse. Then as the consumer lifestyle evaporates, and petroleum and its infrastructure are abandoned, the price of oil and gasoline will become meaningless. I don't see a "recovery" or endless supply-demand cycle coming into play after the next (and last) major shortage. Therefore, extremely low prices will not stimulate demand as before

The main reason for this is that the oil industry has never shrunk in an orderly fashion, or otherwise, nor can it easily become a small version of itself or cater to a rapidly vanishing market. Population drop-off from lack of petroleum-grown/delivered/preserved/cooked food will ensure no return to "growth" or major consumption of oil again. A new culture based on subsistence and cooperation will take hold in the most industrialized countries, especially the hyper-petrolized U.S. Older, traditional cultures won't see much change. They are there now for us, as I recently discovered in Bolivia. There, less than a fifth of the population is dependent on petroleum and significant levels of imported stuffs. Bolivians, though low-income, enjoy more intimacy and free time.

My overall answer to the question of the Gulf gusher's impact on oil and gasoline prices is: when we're thinking about oil prices or the economy, we have to look at the big picture and anticipate major, sudden change. The U.S. is ready for only expansionist growth, and that has become untenable now that peak oil has likely hit.

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This report was done in answer to a query on June 4, 2010, from Steve Schmitt, Car Free CAT Director, Coalition for Appropriate Transportation, in Bethlehem, Pennsylvania.

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Background reports:

Our Post-Peak Oil Future, from Bay Localize, Oakland, California, featuring petrocollapse scenario versus staircase collapse idea.

"Will Oil and Economy Taper off or Crash, from public affairs show TVSet, Portland, Oregon

News Release:
The Only Answer for Counteracting the Gulf Oil Gusher

from Jan Lundberg, oil industry analyst

"The oil spill is a shameful outrage! Oh, and fill 'er up!" - Joe Consumer

Note: the above report was revised on June 6 after being circulated on June 4 and posted on Culture Change on June 5 at 3:50 PM Eastern Standard Time - U.S.