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## **GAO: Looming Threat to US Oil Supply**

By Matt Renner

t r u t h o u t | Report

Friday 30 March 2007

A report released Thursday by the non-partisan Government Accountability Office concludes that worldwide oil production will eventually grind to a halt and the United States has no strategy in place to deal with the possible catastrophic results.

The report, titled "CRUDE OIL - Uncertainty About Future Oil Supply Makes It Important to Develop a Strategy for Addressing a Peak and Decline in Oil Production," outlines the threat to oil supply posed by global political instability and the lack of new oil field discovery. According to the report, "More than 60 percent of world oil reserves, on the basis of Oil and Gas Journal estimates, are in countries where relatively unstable political conditions could constrain oil exploration and production." These countries include Venezuela, Saudi Arabia, Iraq, Iran and Nigeria. Energy market analysts agree that the significant threat of instability in oil producing nations has inflated the price of oil.

As the report demonstrates, it is quite unclear when peak oil production will occur: "The amount of oil remaining in the ground is highly uncertain, in part because the Organization of Petroleum Exporting Countries (OPEC) controls most of the estimated world oil reserves, but its estimates of reserves are not verified by independent auditors." Despite a lack of reliable information, the report states that "most studies estimate that oil production will peak sometime between now and 2040." Some analysts think world oil production has already peaked.

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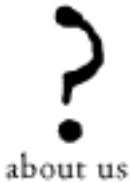
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"Today's report once again emphasizes our need to prepare for peak oil by implementing forward-thinking approaches and advance initiatives that will move our nation toward greater energy stability and independence," Congressman Tom Udall (D-NM) said during a joint press conference with his Republican counterpart after the GAO released its findings.



Congressman Roscoe Bartlett (R-MD) called the report "a clarion call for leadership at the highest level of our country to avert an energy crisis unlike any the world has ever before experienced."

Tensions with Iran pushed crude oil prices above \$66 per barrel Thursday, a six-month high, as analysts fear that a confrontation with the regime could jeopardize exports from the country. In 2005, worldwide oil consumption surpassed 84 million barrels per day. By 2030, that number is expected to reach 118 million barrels per day, 40 percent of which would come from China and India, according to the report.

The report also addresses a need for significant investment in alternative fuels for transportation such as "ethanol, biodiesel, biomass gas-to-liquid, coal gas-to-liquid, natural gas ... and hydrogen." But investment in alternative fuels to offset expected crude oil shortages continues to lag. The report noted that within the next five years, ethanol produced from plant matter could be available commercially. Currently, ethanol production is limited to about 5 billion gallons per year because corn, the main ingredient used to produce ethanol, is needed to feed livestock, the report states. The report concludes by encouraging the Secretary of Energy and other relevant federal agencies to create and implement a plan to stave off peak oil.

The first step, however, is figuring out exactly when world oil production will peak.

Matt Simmons is the president and founder of Simmons and Company International, one of the largest investment banks serving the oil industry. Simmons's company has invested billions of dollars in oil-related technology and played a major role in the development of new technologies over the past thirty years. He says the industry "doesn't have any new technology coming on line," adding that "the idea new oil extraction technology can save us is a complete fallacy." Simmons thinks that world oil production may have peaked in 2005 and said "the odds of us not peaking in the next five years are zero." Simmons called the work of Congressmen Udall and Bartlett "a heroic effort to awaken our country to this threat to the survival of our economy."

Bob Gallagher, president of the New Mexico Oil and Gas Association, has a more conservative view of the current situation. He said market forces will drive the production of alternative fuels quickly enough to supplement crude oil. However, he finds this report encouraging. "If this report serves as a wake-up call to Congress and the American public, it will be well served. The government has failed the American public with regard to energy policy." His concern is over our reliance on imported oil from unstable regions such as the Middle East.

Phil Flynn, vice president and senior energy analyst for Alaron Trading, agrees that the tensions in global oil supply are distressing. He speculates: "If people take [the GAO] report as gospel, it alone could drive oil prices up. We may see oil hoarding by companies and even countries. It could create a panic situation." He adds, "If Venezuela cuts off exports or China begins hoarding, or the Middle East becomes more unstable, we could have severe problems."

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## **Oil Above \$66 On Iran Fears**

By Janet McBride  
Reuters

Friday 30 March 2007

London - Oil rose above \$66 on Friday on global supply worries caused by tension centered on OPEC member Iran and a strike in France that threatens to crimp summer fuel supplies to Europe and the United States.

U.S. crude climbed 27 cents at \$66.30 a barrel by 1214 GMT, having jumped 3 percent to a six-month closing high the previous day.

London Brent rose 64 cents at \$68.52 a barrel. Earlier in the session, the European benchmark rose briefly above \$69 for the first time since September 2006.

A week after Iran detained 15 British sailors and marines in the Gulf, Britain is still trying to secure their release. It plans to urge the

European Union to help isolate Iran at a meeting of EU ministers starting on Friday.

On Thursday, the U.N. Security Council expressed "grave concern" at the situation and supported calls for the crew's release.

The issue, coupled with new U.N. sanctions imposed on Tehran at the weekend over its nuclear program, fed traders' fears about a disruption in exports from Iran, the world's fourth-largest exporter, or through the Strait of Hormuz, conduit for roughly two-fifths of all globally traded oil.

"Prices quickly escalated given increased tension in the Middle East. It shows the underlying tightness in the market despite a period of seasonally low demand," said Gerard Burg, an analyst from National Australia Bank.

At a time of increased sensitivity, the United States sent two carriers to the Gulf but said "they are not there to provoke any kind of conflict with Iran".

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*Additional reporting by Randy Fabi in London, Muriel Boselli in Paris, Felicia Loo in Singapore and Ikuko Kao in Tokyo*

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