

## **Chaos is going to occur**

by Lars Schall

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[http://www.atimes.com/atimes/Global\\_Economy/NG21Dj04.html](http://www.atimes.com/atimes/Global_Economy/NG21Dj04.html).

**Robert Hirsch:** *Chaos is going to occur just because of the announcement that Peak Oil is real.*

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**Lars Schall:** Mr Hirsch, in 2005 you were given the task to come up with a report related to Peak Oil. How did this come about?

**Robert Hirsch:** It came about because I did an analysis to look at the big problems that energy research and development should look into in the future, and I came across something called Peak Oil. Even though I have worked in the oil industry for many years, I'd never heard of Peak Oil. I started to dig deeper and deeper into it, and the deeper I got the more difficult and dangerous the concept was.

I knew that oil was a finite resource, I knew that you can only get so much out so fast. I had been in that part of the business, and when I thought about what that could do to economies worldwide it frightened me. What I did was then that I went to a laboratory of the US Department of Energy and said, the problem looks like it's real, when it hits we clearly have to do something about it, please give us some money, me and two colleagues, to be able to look into it and see the best we can do to in way of mitigating the problem. So I proposed the study to the government, the laboratory I was working with provided the funding, and then we did the study that we did. [1]

**LS:** And what did the government do with the study?

**RH:** As we worked through the study we coordinated with people at the laboratory, and we got their ideas, and we told them about the content of the study and so forth – so they were aware of what was happening. When we handed in the final report in they were shocked, and they were shocked because it made sense and because it indicated that to fix that problem it would take a huge amount of money and a

significant period of time. This is not a problem that you could fix quickly.

They didn't know what to do with the study because they were frightened. It turns out that the person who was the director of the laboratory was retiring, and she said: „I'll sign the report.“ She signed the report, but they tried to bury it. But then people in the Internet found the report and it was then made public.

**LS:** Is the fact that the US government is afraid of Peak Oil also the reason why it never talked about the problem during the administration of George W Bush really in public, even though they had this Energy Task Force in spring of 2001 where they looked into it because [then vice president] Richard Cheney was for sure aware of it?

**RH:** When somebody in authority stands up and says to the world that Peak Oil is real and that we have to deal with it, chaos is going to occur just because of the announcement. People will get frightened, they will start hoarding gasoline, they will begin what they did before, which is to tap-off their gasoline tanks and their automobiles, and that will pull the system dry and give you shortages immediately; businesses will revise their plans and become much more defensive, stock markets will see the uncertainty and undoubtedly will drop dramatically.

There will be chaos when someone of significance stands up and says that there is a problem. My assumption is that whoever does that, if it happens, they will also say what they or their company is going to do to mitigate the problem and minimize the loss of business that will be associated with whoever or whatever organization is involved.

**LS:** Another part of the equation are the big oil majors. How are they dealing with the problem, because it endangers their business model?

**RH:** The major oil companies with one exception have denied that the problem exists. One has to wonder why? The answer probably is because it would create chaos and cause them trouble in what they are doing now. My view is that of the things that can be done to mitigate, to provide oil from other sources – heavy oil, coal to liquids, gas to liquids – the major oil companies will be the companies that will best be able to build the plants, the production facilities that are involved, because they know how to do that kind of thing, they have that expertise.

So they may suffer from a short-term hit in terms of how their stocks are viewed, but they also will benefit, because the oil that they have will be worth much more, also because they have the capability to build the mitigation plants that will be necessary to get us out of the immediate problem. It won't happen quickly, it will happen over time.

**LS:** In your study have you run into the problem related to reserves? There is a huge uncertainty with regards to the different types of reserves and the connected secrecy.

**RH:** The reserves problem is a very complicated one, and that's why it took me personally a number of years to work through and develop the understanding that I have today. There are a number of organizations that are lying, outright lying, about their reserves for their own political purposes. That's true also with some countries in

the Organization of Petroleum Exporting Countries [OPEC]. I think there is very, very little question about that. Moreover, there are other countries and companies that are not very good, and so they are not making not very good estimates, and if you are not going to make a good estimate you might do it rather on the high side rather than on the low side because people like to hear a larger number.

The reserves that different companies have are company secrets. The information is kept very much for themselves. There are outside organizations and individuals that have tried to analyze and determine what reasonable reserves are with the countries or companies that are involved, and I think some reasonable estimates have been made, but they are not perfect. Even at that, when you would go in and look within a company, there are some that are better able to make good reserve numbers and there are others that are just technically not able to do a very good job. So it is squishy.

**LS:** Related to Peak Oil you believe this is rather a liquid fuel problem and not an energy problem. Why so?

**RH:** There is something like \$50 trillion to \$100 trillion of capital equipment worldwide that is built to operate on liquid fuels – and I am talking about cars, busses, ships, trains, airplanes, and golfcarts. You don't quickly convert those or replace them, particularly if the problem takes place in a worldwide recession – there is less money available, governments are already weakened because of the present recession, governments will not be able to afford to do this kind of a thing.

So it's going to be very difficult and it is going to take a considerable amount of time to either convert an existing piece of equipment to operate on something else or to build a whole new one and have it put into operation, because what we are talking about is a scale that is absolutely enormous as far as the world is concerned.

**LS:** You are personally investing in gold, and the reason for this is called inflation. You are also comparing what we are facing in the near future according to your analysis and what has happened in 1973/74. Can you bring both things together for us, please?

**RH:** I look at history because there are often parallels to what may happen in the future, and if you don't pay attention to history you are doomed to relive it, as has been said. Looking at 1973/74, even though the economic circumstances were different then in many ways, in other ways they are not. People are the same, and we react the way we react. And most people, I believe, understand how we all react – we don't like bad news, we tend to ignore problems until they hit us directly.

What happened in 1973/74, I think, provides guidance as to what is likely to happen again because it will be largely a human reaction that will affect not only people but economies and businesses and international trade, and so forth. So I believe looking at what happened back then, when there really was a shortage, not just a spike in prices, there was a real shortage, that you can gain a good deal of understanding as to what is going to happen when this thing hits in the near future.

**LS:** Related to the pricing of oil do you think that there will be changes? For example, you are surely aware that India and Iran are doing their dealings in gold.

**RH:** Probably changes will occur. But it is very difficult for me – knowing what I know and looking at what economists know – to forecast such things. I think many different things are likely to happen. No one should be surprised that changes occur. I tend to look at things from a fundamental point of view of how much material is there and what it takes in terms of human activity to take whatever material we are talking about and bring liquid fuels to a point where consumers can use it.

So I tend to look at that problem, and problems of changes in finance and inflation associated with one currency that is stronger than another and so forth, those things will damp out in my opinion over time. They will have short-term effects that could be significant, which can either help or hurt some of the people involved, but they are not as fundamental as the fact that we are dealing with a limited resource

**LS:** Okay, we have a limited resource, but then again we have almost unlimited money creation. Doesn't this cause a little problem?

**RH:** That goes back to your earlier question. If you print a lot of money you are inherently going to have inflation, and in inflationary times people in the past have gone to gold as a hedge, as something that is limited, that you can't print, that has value, and that has happened many, many times over the years. Therefore, I believe that to protect assets that I have I need to have some of my assets in gold.

**LS:** Off the record you have already told me that you have a problem with the term „Peak Oil“. Why?

**RH:** I have a problem with that term because it implies a sharp peak, like a top of a mountain, an inverted V, and it has the connotation that after that occurs there would be disaster. The term I like better is „The Onset of the Decline of World Oil Production“, because what happened is that we had a little peak already that people call the peak of conventional oil production, and yet nothing terrible has happened. It's a tiny peak. It's almost imperceivable looking at graphs. So I have trouble with the term „Peak Oil“ because it implies imminent disaster, whereas the term „The Onset of the Decline of World Oil Production“ is longer, it has more words, but is in fact a much better indicator of the onset of serious problems.