THE GLOBE AND MAIL

Economy Lab

Delving into the forces that shape our living standards

Posted on Wednesday November 21, 2012.

http://www.theglobeandmail.com/report-on-business/economy/economy-lab/what-we-missed-in-the-global-energy-report/article5517963/

What we missed in the global energy report

RICHARD GILBERT
Globe and Mail

On November 12, the Paris-based International Energy Agency (IEA) released *World Energy Outlook 2012.* Globally, the report provoked a flurry of inaccurate reporting about the prospects for U.S. oil production, consumption, and exports. The Globe and Mail focused more on the implications of an increase in U.S. oil production for Canadian oil exports.

However, there's nothing in the report to suggest Canadian exports to the U.S. must decline, although deliberately reducing the level of exports could well be a good idea.

Here are four among many examples of inaccurate reporting about the IEA report:

- The Wall Street Journal said the report means the U.S. will increase its oil production to about 23 million barrels a day in 10 years from about 18 billion barrels now. The newspaper also said that U.S. oil imports are currently 20 per cent of its needs.
- The Washington Post said the report means that during the next decade the U.S. will become almost self-reliant with respect to oil and will be on track to becoming a net exporter of oil by 2035.
- The New York Times said the report means that the U.S. will be a net oil exporter by 2030.
- Britain's Daily Telegraph said the report means that North America as a whole will be a significant net exporter of oil by 2035.

What the report actually said, among other things, is this (considering the IEA's central scenario only and taking into account oil consumption that fuels international aviation and shipping):

- U.S. oil production in 2011 was 8.1 million barrels per day. It will rise to 11.1 mb/d by 2020 and then fall to 9.2 mb/d by 2035. The Wall Street Journal's numbers are grossly in error.
- U.S. oil imports as a share of consumption will fall from its present 57 per cent, levelling out at about 33 per cent around the year 2025. The Journal, The Washington Post and The New York Times all misled their readers about oil imports.
- North America (i.e., Canada, Mexico, and the U.S.) will still be a net importer of oil in 2035. Thus, the Daily Telegraph was wrong, especially so by adding the word "significant," which is not used in the report to describe North America's oil exports.

To a degree, the IEA was responsible for the misleading articles. The report itself misrepresents the IEA's own projections. For example, on Page 23 it says, "The result is a continued fall in U.S. oil imports, to the extent that North America becomes a net exporter of oil from around 2030." It's easy to miss the shift in this sentence from the U.S. to North America. In any case, the statement about North America is true only if oil used for international aviation and shipping is ignored.

Another example of IEA-caused confusion occurred at the London press conference where the report was released. There, IEA chief economist Fatih Birol said that 55 per cent of the move of the U.S. towards self-sufficiency in oil production will come from more oil production and 45 per cent from improvements in energy efficiency. That is what the report projects for 2020-2025, but thereafter the share attributable to production declines steeply. By 2035, the largest share of the reduction in imports is to come from improved energy efficiency.

The *New York Times* at first reported Mr. Birol's statement as meaning that U.S. oil production is to rise by 55 per cent by 2035 (the actual projected increase is 14 per cent). This was corrected, but the correction was wrong.

The projected increase in U.S. oil production and the improved efficiency in U.S. use of oil are both highly speculative. Looking ahead to 2035, well over half of projected production has much uncertainty about it. The expected improvement in energy efficiency is similarly uncertain: it would require per-capita oil use to fall by more than 40 per cent, which would represent astonishing changes in how people and goods move in the U.S.

The result of all of this confusion and misreporting has been major expressions of complacency about the future availability of oil in the U.S. and much wailing and teeth-gnashing in Canada. An example of the latter was this Globe and Mail article by Doug Saunders. He claimed that the IEA said the U.S. will become a major world exporter of oil soon after 2017 and that we should be talking about Peak Canada rather than about Peak Oil because the U.S. will no longer want our crude. However, the IEA report forecasts that in 2035 the U.S. will still be importing more oil than the total of what Canada could have available for export.

The actual amount available for export to the U.S. could well be much less than what the U.S. will need, for several reasons. One would be higher U.S. consumption, because conservation forecasts are not met. Another would be higher domestic consumption of Canadian oil. The third reason would be development of alternative export markets for Canadian oil, notably in Asia using oil moved to Pacific ports by pipeline or, more likely, rail.

In spite of delusions about imminent U.S. oil self-sufficiency, Peak Oil is likely still with us and, because Canada will continue to be a net exporter of oil, so is Peak Canada. There could still be concern about where Canada's oil exports might go, but the more urgent problem is the level of Canada's oil imports. In 2011, 91 per cent of the crude oil used in Quebec was imported, with Algeria being the chief supplier; 79 per cent of the crude oil used in the Atlantic provinces was imported, with Saudi Arabia being the chief supplier. Even though 85 per cent of Ontario's oil was from Canadian sources, almost every drop of this was delivered from the West via the U.S., presenting another kind of vulnerability.

Canada's energy security could be greatly enhanced by moving oil from Alberta and Saskatchewan across the north of Lake Superior for use in Eastern Canada – perhaps by converting an underused natural gas line – rather than for export.

Richard Gilbert is a Toronto-based consultant who focuses on energy and transportation. His latest book is Transport Revolutions: Moving People and Freight without Oil*, written with Anthony Perl.*