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Well doesn't that just kill the Peak Oil idea then? [1]

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Peak Oil is the idea that one day there just won't be any oil left and civilisation will fall over. Or for the more discriminating but no less wrong, that one day we'll be producing less oil than the oil that is demanded and thus civilisation will fall over. The major problem with these and other flavours of the same prediction is that they ignore price. If demand for oil is greater than supply of it then the price will rise. Thus there never actually is a possible position where there is no oil and civilisation falls over. The newspaper home of this idea here in the UK has always been The Guardian. So it's something of a surprise to see that same paper saying this [3]:

> But the truly global implications of the International Energy Agency's flagship report for 2012 lie elsewhere, in the quietly devastating statement that no more than one-third of already proven reserves of fossil fuels can be burned by 2050 if the world is to prevent global warming exceeding the danger point of 2C. This means nothing less than leaving most of the world's coal, oil and gas in the ground or facing a destabilised climate, with its supercharged heatwaves, floods and storms. What follows from this is that the idea of peak oil has gone up in flames. We do not have too little fossil fuel, we have far too much. It also follows directly that the world's stock markets are sitting on toxic levels of subprime coal and gas, a giant carbon bubble ready to explode.

Still nutty of course. For it's still ignoring the role of price: in this case, the relative prices of using oil and having climate change or not using oil and not having climate change. Our whole and entire problem with the whole subject is that, as best we can guess, the no oil no climate change option would be more expensive than the oil and change one. Certainly it would be vastly more expensive if we tried to implement it today. Perhaps it won't be in 50 or 100 years. But that is actually our problem today: no oil today means billions die. This is indeed more expensive than having some climate change.

But there's something else much more interesting here. This idea that we must not, indeed cannot, use all of the fossil fuels we already know about. Fossil fuels that are embedded into the stock market values of a number of companies. If we all believed that these fuels would never be used then they would be valued at nothing (or perhaps a small option value). They're obviously not so we don't so believe.

However, there are those campaigning that we should leave them alone. And one would assume that they expect to be successful at saving the world. Which is something we can test of course, their own beliefs about how effective they are going to be. If they do believe that they'll keep those fuels in the ground then obviously all those energy companies will, in the future, be worth a lot less than they are now. Which is an arbitrage opportunity: they should be short those stocks. If they're not, they don't think they will be successful: if they are they do. So, Greenies, where are your pension funds?

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