

Riding the oil roller coaster

(Oil was more than \$140.00 when this was published)

Earle Gray, National Post

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A recent one-day record jump of US\$10.75 per barrel in the price of crude oil can be taken as a harbinger of the crash that, sooner or later, will follow, if 150 years of history is any predictor. Oil prices have been on a vertiginous roller coaster ever since North America's first commercial oil well was dug in the southwest corner of Ontario at what became the oil field and boomtown (now small village) of Oil Springs in the summer of 1858.

The same market forces that bounced oil prices from 10¢ to \$10 a barrel in the first decades of the petroleum era, and from US\$2.50 to \$37 to \$14 in the 1970s and 80s, still prevail. A great surge in prices induces new energy supplies, reduces demand, and often triggers recession.

The first recorded price for crude oil delivered 12 kilometres from North America's first oil field to a railway was \$5.46 per barrel in December, 1860. Barely more than a year later, the first of 33 deeper wells spewed oil at rates up to 7,000 barrels per day at Oil Springs, Ont., and crushed the price to 40¢ per barrel--as low as 10¢, according to at least one report. In a little more than a year, the flowing oil wells stopped flowing and by 1865 prices were back to about \$10. But by the winter of 1868-69, the price fluctuated between 25¢ and 35¢ per barrel, a producers' committee reported. The wells at Oil Springs were shut down. A producers' cartel, organized in November, 1871, managed to jack up the price to \$2.50. But eight years later when the price again crashed to 40¢, the cartel collapsed.

The petroleum era's first five decades of booms and busts arose from the demand for a lamp fuel developed by Nova Scotia's renaissance man

Abraham Gesner, geologist, chemist, physician, inventor. Gesner called his lamp fuel kerosene, also known as coal oil because it was produced from coal for about a decade until the Oil Springs discovery well ushered in the petroleum age. It was much cheaper to refine coal oil from liquid crude oil than from solid coal.

The boom-and-bust cycle didn't end with the coal oil era. In the years following the Second World War, burgeoning supplies from giant oil fields in the Middle East gradually brought down world oil prices, from US\$3.06 in 1962 to \$2.55 in 1970. Then OPEC (Organization of Petroleum Exporting Countries) -- described as "a cartel the likes of which the world has never seen" -- flexed its muscle; Arab nations embargoed oil shipments to the United States and the Netherlands; the world price quadrupled in three years (to US\$10.50), and nearly quadrupled again in the following six years (to more than US\$37); North America endured its worst energy crisis of the 20th century; and the detested National Energy Program was born as Alberta and the federal government fought over their shares of the growing oil revenue.

The crisis passed, and -- less we forget -- oil prices fell to average just US\$14.41 in 1998, before climbing almost 10-fold in the past 10 years.

Now we hear forecasts of oil at \$200. We've heard that song before. On Sept. 1, 1981, to be precise. That's when prime minister Pierre Trudeau and Alberta premier Peter Lougheed toasted with Champagne an agreement to share oil revenues forecast by bureaucrats at precisely \$212.8 billion over a five-year period. The federal government was to get 25.5%, Alberta, 30.2%, and the oil producers, 44.3%. All this was based on a confident forecast that oil prices would more than double to \$80. In today's money, that would be more than \$160. But oil prices were already starting their 17-year-skid to that \$14 level as the economies of the Western world sank in the worst recession since the 1930s.

This isn't 1981, say energy analysts. The energy world has changed. Higher prices won't bring on a big surge in oil supplies because, supposedly, the world is running out of oil. And they no longer trigger recessions because our economies are now less dependent on energy. We use it more efficiently.

Perhaps. But high oil prices still pack a wallop. They are built into the cost of such everyday things as food, clothing, shelter and all the elements of our digital economy -- it takes 240 kg of fossil fuel to produce an average personal computer. They set the price for all forms of energy. They reduce energy demand and stimulate new energy supplies.

So, have we learned enough from 150 years of history to stop the violent boom and bust cycle of roller coaster oil prices? Don't count on it. When the oil roller coaster slows down, we will all jump on again.

-Earle Gray is the author of *The Great Canadian Oil Patch: The Petroleum Era From Birth to Peak*.

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