

The Citibank® ultimate savings account

3.50% APY

citibank®

» Get details

CNNMoney.com™ News | Markets | Technology | Personal Finance | Small Business | CNN.com

Enter quotes Go Search Fortune Search

FORTUNE



Subscribe To Fortune Magazine Magazine Customer Service

Home Fortune 500 Technology Investing Management Rankings Video Newsletters RSS

FORTUNE MAGAZINE 100 Fastest-Growing Companies 2008 Complete Coverage

Email | Print Type Size

# Here comes \$500 oil

If Matt Simmons is right, the recent drop in crude prices is an illusion - and oil could be headed for the stratosphere. He's just hoping we can prevent civilization from imploding.

By Brian O'Keefe, senior editor  
LAST UPDATED: SEPTEMBER 22, 2008: 4:43 PM EDT

(Fortune Magazine) -- Matt Simmons is as perplexed as anyone that it has fallen to him to take on OPEC, Exxon, the Saudis, and all the other misguided defenders of conventional wisdom in the oil patch. Why should one investment banker with a penchant for research be required to point out what he regards as the obvious - that from here on out, oil supplies can't meet demand, and if we don't act soon to solve this crisis, World War III could be looming?

Why should a man who scorns most environmentalists have to argue that locally grown produce and wind power are the way of the future? Why should a lifelong Republican need to be the one to point out that his party's new mantra - "Drill, baby, drill!" - won't really fix anything and that his party's presidential candidate is clueless about energy? That the spike in oil prices earlier this year wasn't a temporary market anomaly and the recent retreat in prices is just a misleading calm before a calamitous storm? That we're headed toward \$500-a-barrel oil?

"I find it ironic that here we have the biggest industry on earth, and I'm one of the few people to figure out that we have a major problem," he says, in his confident if not quite brash way. "And I did it all in my spare time. How stupid and tragic is that? I shouldn't be one of the only folks that actually has a handful of ideas of how we can keep from blowing each other up and get through this."

Indeed, Simmons isn't the obvious candidate to be the bearer of bad news about oil. He's spent his career working in the business, has lived in Houston for decades, and is such an industry insider that he helped edit the Bush campaign's comprehensive energy plan in the 2000 election - the document that was ultimately more or less rubber-stamped by Vice President Dick Cheney's infamous secret Energy Task Force. Over the past 35 years, his boutique investment bank, Simmons & Co., has helped finance and shape much of the country's existing oil-services business. With profits gushing, you might expect him to be celebrating.

Not to mention that the 65-year-old banker doesn't have the personality of a prophet of doom. He has a puckish wit, a relentlessly cheerful and enthusiastic demeanor, and the appearance of a rosy-cheeked cherub in a navy blazer. He routinely refers - in earnest - to his daily experiences

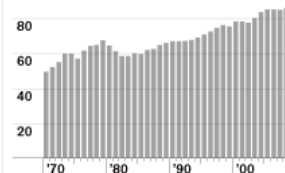


PHOTO: MICHAEL LEWIS  
Matt Simmons argues that Saudi Arabia's oil supplies are much more limited than everyone thinks.

## Hitting a supply plateau?

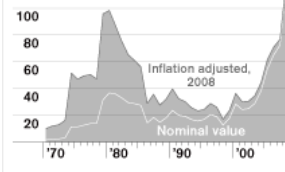
### World oil supply

100 million barrels/day



### Average price of oil\*

\$120 per barrel



\*BRENT CRUDE FORTUNE GRAPHIC

## Most Popular

- |  |   |   |
|--|---|---|
| MOST READ  | MOST COMMENTED  | EDITOR'S PICKS                                  |
| 1. Europe to U.S.: You messed up the rescue,... <a href="#">More</a> | 2. Why the greenback is on a tear <a href="#">More</a>      | 3. We can beat this crisis <a href="#">More</a> |
| 4. Why it's stimulus time again <a href="#">More</a>                 | 5. When a smart adviser really matters <a href="#">More</a> |   |

Forex is an over the counter market and involves significant risk of loss.

FREE PRACTICE ACCOUNT SOUND

## Markets

FORTUNE 500 MOVERS	US INDICES	TECHNOLOGY MOVERS
Company	Price	% Change
Level 3 Communications Inc	0.15	-36.59%
Circuit City Stores, Inc.- Circuit City Group	0.20	-35.48%
Asbury Automotive Group Inc	2.01	-29.23%
Pulte Homes Inc	7.53	-24.32%

Oct 23 3:56pm ET ↑

symbol Go Sponsored by Scottrade

## Top News: CNNMoney.com

- Brutal start seen for Wall Street 22 MINS AGO
- Traders nervous ... very nervous 18 MINS AGO
- OPEC cuts production, oil sinks 1 HR AGO
- Dollar surges vs. euro, tumbles vs. yen 1 HR AGO
- Britain on the brink of recession 2 HRS AGO
- Will the Fed go below 1%? 2 HRS AGO
- Why you'll pay for federal spending cuts 3 HRS AGO
- Student loan fugitives 2 HRS AGO

as "tremendous fun." His closest business associates have a hard time recalling him ever showing anger. But when it comes to oil and gas, his message is downright scary.

### An unlikely maverick

Simmons was transformed overnight from an influential industry expert to an A-list pundit by the publication in 2005 of his book "Twilight in the Desert: The Coming Saudi Oil Shock and the World Economy," a fairly technical read which argues that Saudi Arabia's oil supplies are much more limited than everyone thinks.

Since then he has moved to the forefront of the peak-oil movement - a once fringe but now growing contingent of oil industry veterans, independent consultants, investors, and academics who believe that world oil production is at or near an inflection point, after which it will fall inexorably and fail to meet projected future demands. According to Simmons, we have already passed that peak. And while we're not going to run out of it anytime soon, the era of easy oil is over, and the world is about to enter a period of convulsive change. (Hint: Learn to garden, and buy some comfortable walking shoes.)

The soaring price of crude - it has risen from below \$20 a barrel in 2002 to as high as \$147 earlier this year - has helped thrust Simmons further into the spotlight. He was one of the main voices, for instance, in the recent oil-shock documentary "Crude Awakening," and his book has now sold more than 100,000 copies. His willingness to make bold predictions about how high crude may go has made him an A-list guest for cable TV news programs and a go-to source for newspaper reporters covering oil and gas. In 2005, when oil was \$58 a barrel, he predicted it would be at or above \$100 within a few years. Now he sees it climbing to \$200, \$300, or higher. "There really is no roof on oil prices at this point," he says.

Being so outspoken, of course, invites criticism, and Simmons has endured plenty. But he has also won a lot of high-profile admirers. "Like most people who ignore conventional wisdom, he was scoffed at, ridiculed, and denied," says commodities guru Jim Rogers. "And now, of course, people are starting to say, 'Oh, well, I thought of that.'" Billionaire oil and gas investors Richard Rainwater and Boone Pickens both heap praise on Simmons's analytical abilities. Maine's Senator Susan Collins, a Republican who recently began consulting with Simmons on energy issues, says, "I think he's issuing a clarion call that policymakers need to listen to."

In his own upbeat way, he despairs about what is to come. As the price of oil has fallen this summer (to \$101 at press time), Simmons has watched in dismay as complacency has returned and the champions of do-nothingism have popped out of the woodwork to say I told you so. Not that it's lessened his conviction about the road ahead. "I do think there are a growing number of people who are getting it," he says. "But I guess it just reminds me that as a society, we don't have the ability to actually come to grips with a crisis until it's hit us in the face. I am discouraged enough now to think that we're going to have to have a really nasty shock before we wake people up."

### Has peak oil peaked?

On a Thursday morning at the end of July, Simmons is sitting in a wicker chair on the back porch of his six-bedroom summer home on the coast of Maine, waiting to do a live television spot on CNBC. Sun glints off Penobscot Bay below him. In the distance, sailboats glide in and out of Camden Harbor. It's the kind of scene that has captivated him since his Harvard days in the 1960s, when he started coming up here on weekends. Wearing a blue-and-white-checked shirt, cream-colored pants, and tasseled loafers, Simmons chats with Ellen, his wife, and Emma,

Sponsored Links

### Reserves get harder to find

**Want your credit score?**  
The U.S. Average is 692. See your 2008 report and score now for free!  
FreeCreditReport.com  
150 bill. barrels

125  
**Top-Rated MBA Online**  
Earn Your MBA In 2 Years. No GMAT Required. 100% Online Program!  
www.FloridaTechOnline.com

50  
25  
0  
'30 '40 '50 '60 '70 '80 '90 '00

Buy a link here

SOURCE: ASSOCIATION FOR THE STUDY OF PEAK OIL FORTUNE GRAPHIC

### 100 Fastest-Growing

#### Full list: Top 100

1. Arena Resources
2. T-3 Energy Services
3. Allis-Chalmers Energy
4. Bucyrus International
5. DXP Enterprises

#### Fast-growers in your state

#### Most profit growth

### More from Fortune

For tech, a tale of two downturns

Five reasons to buy Yahoo stock

Redstone's woes are shareholders' too

FORTUNE 500  
Current Issue  
Subscribe to Fortune

Investors pulling less from mutual funds 15 HRS AGO

Today's top stories

### More Galleries



#### Your Money: McCain vs. Obama

See where the presidential candidates stand on the major economic issues. [More](#)



#### Consumer Reports' most reliable cars

These 2009 cars and SUVs beat all the others in predicted reliability according to Consumer Reports. [More](#)



#### Elect an entrepreneur

Seeing vulnerable incumbents, both parties are backing political outsiders for Congress. Check out these business owners' plans for getting the nation on track. [More](#)

Sponsors

**FOREX.com** [Free \\$50k Practice Account with FOREX.com](#)

**MAZDA** [Visit "Money Matters: 6 Must Knows"](#)

**MassMutual** [MassMutual helps you make good financial decisions](#)  
We'll help you get there.\*

**E\*TRADE** [Get Actionable Trading Ideas with Power E\\*TRADE](#)  
E\*TRADE Securities LLC

**GMAC Bank** [Worry less. Save more. CDs from GMAC Bank.](#)

### TRY 2 FREE PREVIEW ISSUES!



Outside the U.S. and Canada, [click here.](#)

Full Name

Address

City

State/Pr  Zip/Postal

E-mail

[Privacy Policy](#)

**Sponsored Links**

one of their five daughters. His earpiece is chattering as CNBC anchor Melissa Francis teases

[Solar Stock Pick EYSO](#)

Emerging Green Energy Co. Growth Stock Investment  
www.EvolutionSolar.com

At the moment, the price of oil is hovering around \$124 a barrel, and CNBC wants him to  
[Refinance Now: Fed Drops to 0.5%](#) tumbling. "Has peak oil peaked? I guess that's our topic," he  
\$250,000 mortgage for \$874/mo. No closing cost, no pre-ARMs live.

Refinance.MortgageSavingZone.com

It was on this same porch five years ago that Simmons had the insight that convinced him that

[Home Refinance! 400,000 mortgage for \\$637/mo. No closing cost! FREE quotes](#)  
www.Lend.com (yes, the son of H.L. Hunt who, with his brother Bunker, almost cornered the

silver market in 1980), Simmons had become suspicious of the Saudis' claims about [buy a link here](#)  
vastness of their oil supply. In his four decades of working in the oil and gas industry, everyone  
he had ever talked to had taken it as gospel that the Saudis had enough oil to bail the world out  
when other supplies ran short. If that wasn't true, Simmons believed, the era of cheap oil was  
over. Demand for crude was on the rise worldwide, and supplies were getting tighter all the  
time. If the Saudis were pushing up against the limits of their oil production, the world needed  
to know.

In his typically analytical fashion, Simmons went hunting for data. He found it in the form of  
hundreds of technical papers submitted by Saudi oil geologists to the Society of Petroleum  
Engineers over the past 50 years. Simmons spent the month of August 2003 sitting on his porch  
in Maine and grinding his way through the minutiae of technical accounts of, for instance,  
reservoir pressure and water-cut percentages, trying to piece together the challenges that the  
Saudi geologists had encountered in managing their precious oilfields. In the end, his  
conclusion was clear. "I finished reading the last paper on a Sunday afternoon," says Simmons,  
"and I sat back and I thought, Holy crap, this is unbelievable. I've just discovered the biggest  
energy illusion ever in the world. We're in big trouble. I'm going to write a book."

And so he did. But writing the book didn't exhaust his passion. Today he is more convinced  
than ever that we've reached peak oil. If he's right, current world oil production- 86 million  
barrels a day- is about as high as we're going to go.

Of course, if demand goes up but supply doesn't, prices are apt to go through the roof. And  
unlike global oil production, global oil demand doesn't appear to be anywhere near a peak. Both  
the U.S. government's Energy Information Association and the independent International  
Energy Agency, based in Paris, estimate that worldwide demand will be more than 115 million  
barrels a day by 2030.

[Digg](#) [Facebook](#) [Yahoo! Buzz](#)

**More Economy**

[Britain on the brink of recession](#)

[No stopping this wild ride](#)

[Traders nervous .... very nervous](#)

**Featured**



### Cashing in on Palin-mania

Even when the connection is strictly by chance, products that evoke the Republican vice-presidential candidate are getting some serious attention. [More](#)



### Medco's big bio bet

The company that manages your drug benefits also wants to get into your genes. [More](#)



### Really old money

The new darlings of the art market are ancient artifacts. It's a wild, high-stakes game with a shady past. Playing it could make you rich - or get you arrested. [More](#)

[Home](#) | [Contact Us](#) | [Advertise with Us](#) | [Corrections](#) | [Career Opportunities](#) | [Press Center](#) | [Site Map](#)  
[RSS](#) | [Email Delivery](#) | [Portfolio](#) | [Podcasts](#) | [Mobile](#) | [Widgets](#) | [User Preferences](#) | [Special Sections](#)  
[Subscribe to Fortune](#) | [Magazine Customer Service](#) | [Download Fortune Lists](#) | [Reprints](#) | [Conferences](#) | [Business Leader Council](#)

© 2008 Cable News Network. A Time Warner Company ALL RIGHTS RESERVED.

Terms under which this service is provided to you. [Privacy Policy](#)

\* : Time reflects local markets trading time.† - Intraday data delayed 15 minutes for Nasdaq, and 20 minutes for other exchanges.\* [Disclaimer](#)

Copyright © 2008 BigCharts.com Inc. All rights reserved. Please see our [Terms of Use](#).

MarketWatch, the MarketWatch logo, and BigCharts are registered trademarks of MarketWatch, Inc.

Intraday data provided by Interactive Data Real-Time Services and subject to the [Terms of Use](#).

Intraday data is at least 20-minutes delayed. All times are ET.

Historical, current end-of-day data, and splits data provided by Interactive Data Pricing and Reference Data.

Fundamental data provided by Morningstar, Inc..

SEC Filings data provided by Edgar Online Inc..

Earnings data provided by FactSet CallStreet, LLC.