

RESOURCE INSIGHTS



INDEPENDENT COMMENT ON ENVIRONMENTAL AND NATURAL
RESOURCE NEWS

B Y K U R T C O B B

SUNDAY, DECEMBER 16, 2007

Welcome to Fantasy Air

Airlines and the government agencies that oversee them are projecting stunning growth for air travel and air freight over the next couple of decades. That seems to fit with the story of the amazing rise of the Asian economies, particularly China and India. And, it is consistent with the clear-sailing-ahead outlook of several prominent energy forecasters. The [U. S. Federal Aviation Administration \(FAA\)](#) is actually predicting a 1 percent annual drop in the price of aviation fuel between now and 2020.

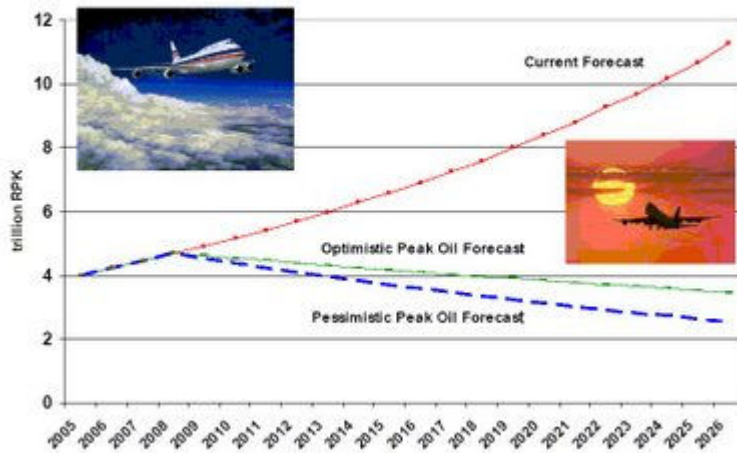
Welcome to Fantasy Air! According to the aviation powers that be there is nary a cloud in the sky for aviation growth.

Enter [Roger Bezdek](#). Bezdek flew to Houston recently to tell an attentive, peak oil aware audience that the future of the airlines which had brought most of them there is much bleaker than airline passengers, employees, executives or even professional forecasters realize. Speaking at the 2007 World Oil Conference organized by the [Association for the Study of Peak Oil & Gas--USA](#), the energy consultant and co-author of the [Hirsch Report](#) prophesied neither the total demise of the airline industry nor the sparkling exponential growth so prominent in official forecasts. Instead, airlines are set to enter an era of relentless decline.

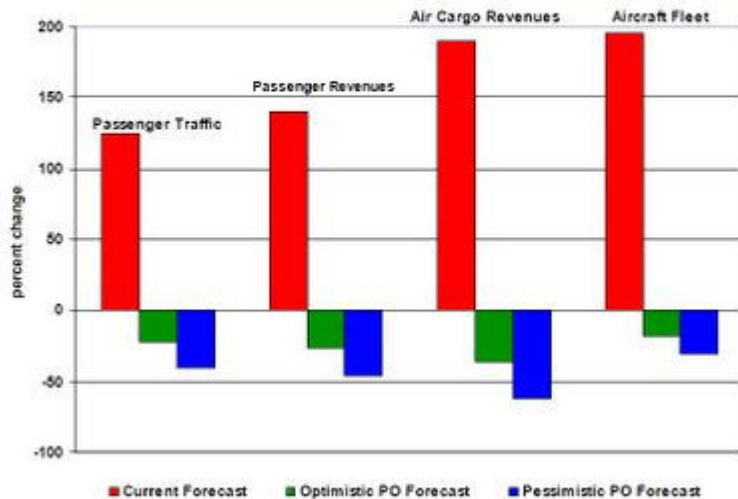
Bezdek's forecast is, of course, premised on the idea that world peak oil production will occur soon. His actual projections are based on the assumption (but not the prediction) that oil will peak in 2008. What Bezdek finds by "reverse engineering" the official forecast is that the main factor that will drive air transport is the trend in GDP, *not* fuel costs as so many people have assumed. His study showed that even with today's high fuel costs, airlines are growing and prospering with one of their main problems now being *undercapacity*.

But since airline growth is linked to growth in the general economy and since peak oil is expected to cause a general decline in GDP, air transport will follow that general decline. Bezdek provides two scenarios, one based on a 1 percent annual decline in GDP through 2026 (labeled "Optimistic Peak Oil Forecast") and a second based on a 2 percent decline (labeled "Pessimistic Peak Oil Forecast"). He concludes: "[I]n both scenarios, passenger traffic declines faster than GDP, passenger revenues decline faster than traffic, and air cargo declines faster than passenger traffic or revenues."

WORLD PASSENGER REVENUES AFTER PEAK OIL



WORLD AVIATION FORECASTS, 2008 – 2026, UNDER THREE SCENARIOS



He projects that:

- Hundreds of billions of dollars of investment will be "stranded."
- Some airlines will disappear or may have to be rescued by governments.
- Airport and aviation infrastructure projects will be cancelled.
- Bonds for airports, airport industrial parks, infrastructure projects, etc. will likely default, cascading throughout the financial sector.
- Problems will cascade well beyond the aviation sector.

It is this last point which is most important. The aviation industry may turn out to be a microcosm of the broader economy. This has disturbing implications for many infrastructure projects now currently underway or planned for the next several years. Because peak oil is not widely recognized by government infrastructure planners, new highways, new airports and new infrastructure for sprawl continue to be built. And, there are plans for further rapid expansion well into the fourth decade of this century. The underlying assumption, of course, is that liquid fuels will be cheap and plentiful for decades to come.

As for airlines, Bezdek says, their problems may end up being even worse than his forecast suggests. As liquid fuels become less available and more expensive, critical sectors of the economy such as agriculture, health care and emergency services will likely be given special priority for what fuel is available. He asks a question that answers itself: "What is more important: Food or cheap air fares to Las Vegas and Vail?"

That question and many more like it are ones which Bezdek expects us to face in the not too distant future.