Updated: 4 June 2009

Why Your World is About to Get a Whole Lot Smaller
Oil and the End of Globalization

By Jeff Rubin

Rights Held: World

Rights Sold:

Chinese (simplified):	**China Citic Press**
Croatia:	**Skorpion Publishing**
German:	**Hanser Fachverlag/Carl Hanser Verlag**
US:	**Random House/Random House, Inc.**
UK & Commonwealth (ex. Canada):	**Virgin Books/Random House Group UK**

Published in Hardcover by Random House Canada (May 2009)

288 pages, 5 ½ x 8 ¼

***Maclean's Magazine* - #1 National Bestseller**

***National Post* - #1 National Business Bestseller**

***The Globe and Mail* - #2 National Bestseller**

***Montreal Gazette* - #3 Bestseller**

About the Author

Jeff Rubin was the Chief Economist at CIBC World Markets for almost twenty years. He was one of the first economists to accurately predict soaring oil prices back in 2000 and is now one of the world's most sought-after energy experts. He lives in Toronto.

Below is a link to national television show interview with Jeff Rubin:

CBC The Hour: with George Stroumboulopoulos
http://www.cbc.ca/thehour/videos.html?id=5393362

Canadian Praise:

". . . [*Why Your World is About to Get a Whole Lot Smaller*] is an easy, intelligent read for anyone seeking insight into the relationship between energy and the economy, and it brings perspective that has so far been absent from the peak-oil debate."

– *The Toronto Star*

". . . unlike many previous peak oil books, which typically don't get much past 'we're in big trouble,' Mr. Rubin's conclusions are refreshingly optimistic."

– *The Globe and Mail*

"And his main point is hard to dispute: If the world starts to run out of affordable oil, we'll all have to make a radical lifestyle adjustment and focus on the local rather than the global economy."

– Montreal Gazette

"The former CIBC [Canadian Imperial Bank of Commerce] star is both a fine writer and an engaging speaker . . . "

– *National Post*

"So get set. If Jeff Rubin says something is coming, you better listen."

– *Canadian Business Magazine*

". . . easily accessible and cogently argued book. . . "

– *The Canadian Jewish News*

"Rubin is spot-on with his conclusion that we had better brace ourselves for some changes in the way we eat, the way we travel and the way we take for granted the ever-increasing abundance of inexpensive consumer goods."

– The Globe and Mail

"Rubin is sure to incite controversy with some of the central ideas in this book, but given that the world he envisions seems increasingly likely to materialize, *Why Your World is About to Get a Whole Lot Smaller* could turn out to be exactly the book that readers are looking for, or that they need."

– Quill and Quire

"Rubin imagines a world where people work and vacation close to home, eat locally grown foods and buy locally produced goods. Suburban sprawl is replaced by revitalized cities.

That doesn't sound all bad."

– Courier-Island (Campbell River)

". . . [*Why Your World is About to Get a Whole Lot Smaller*] is an excellent encapsulation of the role of energy in the global economy and the magnitude of change the world might expect if there are no meaningful transformations in the global energy mix, not to mention how we all choose to live our lives."

– *Calgary Herald*

"Rubin is clear that oil and other hydrocarbons are going to be part of the global energy mix, whether Greenpeace likes it or not. But he also talks about the impact on the economy and consumers of the fact that the world's cheap oil reserves have already been discovered."

"It is . . . . part of a complex issue that carries with it global socioeconomic implications. Greenpeace might be well-advised to take notice."

– *Calgary Herald*

". . . Rubin's book deserves to be read for its clear warnings of what is to come."

– *Winnipeg FreePress*

". . . Rubin's radical vision of a small-world future is far more attractive than the vision we now have, in hindsight, of our last few squandered decades."

– *thetyee.ca*

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US Praise:

". . . there are two themes that distinguish it from other books I have read about peak oil. The first involves a discussion of carbon dioxide emissions. . . The second theme that distinguishes Rubin's book is that it is ultimately a hopeful book."

– EcoFriendly Magazine

"In his new book, economist Jeff Rubin says as oil prices go up, and stay up, it will mean a restructuring of our economy and lifestyle."

– National Public Radio

"What Rubin is describing is essentially a deathblow to globalization and a return to regional economic trade, similar to what world trading patterns were like in the 1970s."

" . . . I urge you to read Chapter 7 – 'Just How Big Is Cleveland' – in which he provides an excellent explanation of how high oil prices last summer caused the recession we are in right now."

– *Clean Break*

About the Book

As Jeff argues in *Why Your World Is About to Get a Whole Lot Smaller*, we are poised on the brink of massive change. Dependent as it is on cheap oil even in this current global economic crisis of oil price fluctuations, our global civilization is about to get the shock of its life. Systems of trade, of finance, of shipping and manufacturing, of labour and international relations are all about to be rearranged. Soaring energy costs are not going to get thrown into reverse; but, as a direct result, the machinery of globalization certainly will. Get ready for a new world--one in which domestic manufacturing will be reinvigorated and the products and services we still enjoy will start coming from places much closer to home.

- How skyrocketing oil prices, not subprime lending, caused the recession
- Why "fuel efficiency" doesn't lead to conservation—it leads to increased consumption!
- Why ethanol and other alternative fuels are a joke.
- Why the real dangers of carbon emissions (global warming) come not from the U.S., but from the developing world -- and why there should be a "carbon tariff."
- Why American industries like steel and agriculture will be revitalized in the world to come.
- Why the end of the current recession will see oil prices rise to unprecedented levels and how that will reverse globalization—not necessarily a bad thing

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WHY YOUR WORLD IS ABOUT TO GET A WHOLE LOT SMALLER

by

Jeff Rubin

A ground-breaking assessment of the future of the global economy in a world where “cheap energy” is a thing of the past by the economist who was the first to predict triple-digit oil prices (and they said he was crazy).

Renowned economist and energy expert Jeff Rubin explains:

- How skyrocketing oil prices, not subprime lending, caused the recession that began in 2008.
- Why "fuel efficiency" doesn’t lead to conservation—it leads to increased consumption! There is a fundamental imbalance between oil supply and demand: global demand keeps going up even in the face of skyrocketing prices, while supply has been flat for years. Moreover, we are pumping several times the amount of oil we find each year. Oil scarcity, and therefore high prices, is inevitable.
- Why ethanol and other alternative fuels are a joke.
- Why the real dangers of carbon emissions (global warming) come not from the North America, but from the developing world—and why there should be a “carbon tariff.”
- Why industries like steel and agriculture will be revitalized in the world to come.
- Just as oil prices provoked the recession, rebounding oil prices will define and limit the recovery.
- Distance costs money when oil is expensive. Shipping costs will become the equivalent of a tariff, and will start to throttle global trade.

- The economies of the developed world have an immense comparative advantage in carbon emissions. This will lead to a carbon tariff, further limiting global trade and bringing a lot of lost jobs back to the industries of the developed world.

- Cheap oil means cheap money. Expensive oil will mean expensive money—that is, high interest rates and inflation.

- The meltdown on Wall St. and across the global economy will also trigger inflation and high interest rates, as governments increase money supply to pay down ballooning debts.

- Economic output is directly linked to oil consumption, and as long as that is the case economic growth will be constrained by a dwindling supply of oil.

- Like globalization and our affluent, debt-dependent consumer economies, our values of tolerance and equality may turn out to artifacts of the era of cheap oil, which will mean that we may face political and cultural upheaval in the stagnant economy of the decades ahead.

- On the other hand, restructuring our economies and our way of life to adjust to an energy-constrained world will offer many opportunities for innovators. There will be many silver linings.

- The reversal of decades of globalization will mean our lives will be more local, and our world a lot smaller.

- Why the end of the current recession will see oil prices rise to unprecedented levels and how that will reverse globalization—not necessarily a bad thing.

CANADIAN REVIEWS

Why Your World is About to Get A Whole Lot Smaller

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PEAK-NIK

ECONOMIST JEFF RUBIN HAS A HABIT OF PROVING HIS CRITICS WRONG. NOW, WITH HIS CONTROVERSIAL NEW BOOK, CAN HE DO IT AGAIN?

BY JEFF SANFORD

ON A RECENT FRIDAY afternoon, the Dufferin Mall, a blue-collar shopper's paradise in Toronto's west end, is teeming with visitors. Tweens from nearby schools sit at plastic laminate tables discussing their shiny, shrink-wrapped bangles. Bargain hunters at Wal-Mart sift through mountains of low-priced Chinese-made goods, as families cart plastic bags brimming with merchandise out to a parking lot jammed with vehicles.

It's as common a scene as you'll see anywhere. But looked at in a different way, the denizens of Dufferin (and places like it around the world) aren't just walking around a mall: they're walking through a big puddle of oil. That's because all those signs, bags, wrapping and products are derived from hydrocarbons. Gasoline-powered cars will get most everyone and their stuff home. And oil-fired ships, trains and trucks got the stuff here.

The Chimerica trade route that expanded rapidly in the late '80s and '90s flooded North America with cheaply produced Asian goods. That helped preserve middle-class lifestyles through an era of stagnant wages, and in many ways became the backbone of North America's economy. But the whole enterprise really works well only when crude is priced at US$25 a barrel. Now that oil is about to move into a new and permanently higher price range, as a result of shortages and a shift to less-efficient production, the lines of trade are about to break down. That is going to throw the Canadian economy first into crisis and then, after a period of adjustment, into a new post-carbon future.

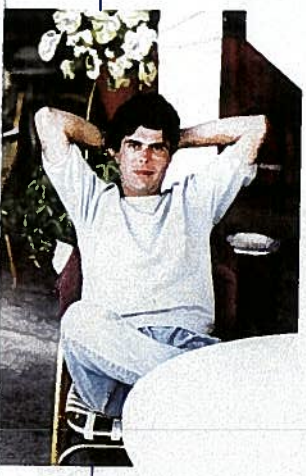
Or so says Jeff Rubin, the brash and controversial (some would say *over-opinionated*) former chief economist for CIBC World Markets, as he sits in the Dufferin Mall food court, digging through a box of fries. As he chats about his new book, *Why Your World Is About to Get a Whole Lot Smaller* (Random House, $29.95), Rubin predicts the consumer paradise Canadians have known over the past several years is about to break down—and in a rather messy fashion.

Another round of triple-digit oil prices, Rubin warns, will see a relocalization of manufacturing to Hamilton from Guangdong. Western access to cheap Asian labour will decline as energy prices rise—and that's going to increase the price of basic goods, like food, by as much as 40%. Also in Rubin's crystal ball: $7-a-gallon gasoline in the United States, along with a crash in the greenback that will make driving so expensive that many poorer Americans will realize they can no longer afford it. One-fifth of all cars on the road will be gone in a decade.

Rubin doesn't flinch as he sets forth his vision: "I think the economy of the future is going to be more like the '60s or the '70s. Because of cheap oil, we got used to plentiful blueberries in Canada in the winter. But

JAMES REID

BIO | **JEFF RUBIN, AUG. 24, 1954.** Raised in North York, Ont. Graduate, University of Toronto and McGill.



1982 Begins working at the Ontario Ministry of Finance after graduating from McGill University.

1988 Moves to Bay Street by taking a job at Wood Gundy, which later merges with CIBC World Markets.

1989 Makes first controversial call: Toronto homes prices will fall by 25%. Turns out to be right.

2000 Travels to Ireland to meet with Colin Campbell. Returns to Canada and begins developing peak-oil-informed economic reports.

2009 Quits job at CIBC to publish book on peak oil and heads out on tour to deliver the message to Canadians.

in the '60s, the only blueberries you would have got were canned or frozen. We're going to go back to that to some extent. For the people in this mall, it's going to be a big change."

It's a frightening scenario, especially for anyone who kind of likes things the way they are. Do we really have to prepare ourselves for a world without easily available fresh sushi (at least if you live far from the ocean), with less travel, fewer consumer choices, smaller energy footprints, reduced lifestyles—an overall contraction of civilization?

In its hydrocarbon-inspired horror, this call is classic Jeff Rubin. During his time as chief economist at CIBC, he developed a reputation for controversial predictions, some of which brought howls of derision from the Canadian commentariat. Nowadays, you don't have to go too far to find Rubin bashers, especially after he flubbed a call on the direction of the TSX. (In October 2008, he said it would reach 12,000 by the end of 2009—he was forced to reissue a new forecast of 9,000 this spring.) And when Rubin predicted in 2008 that oil would go to US$200, that was it—the naysayers quickly piled on.

Rubin is no shrinking violet, though. Rather than retreat, he has upped the ante on his peak-oil-based crusade. He quit his job at CIBC to promote his book. And he is now getting ready to go on tour to bring his message to Canadians. Yes, you're about to see a whole lot more of Jeff Rubin.

His words are either a prescient warning or he's gone totally Kurtz, à la Marlon Brando in *Apocalypse Now*. Whichever way we're headed, we should know soon: Rubin's latest call, that oil will be back in triple-digit territory in 2010, is just one year away from confirmation.

SITTING IN THE FOOD COURT, watching the mall traffic pass, Rubin continues to make his way through his fries. "This is great. I can't believe they still have these," he says, indulging in a moment of wry nostalgia. He doesn't spend a lot of time in mall food courts. That's clear.

Rubin lives in Toronto's Jack Layton–loving east-end neighbourhood of Riverdale, with wife Deborah Lamb, a retired CBC journalist, and their two children, ages 14 and 12. They shop at the organic market in nearby Withrow Park and generally live the life of what some might call the upscale urban hippie.

This might not be expected from someone with a background in investment banking. But then again, Jeff Rubin is not your typical eggheaded senior economist. He's dressed in a cool-dude sport jacket and jeans, and his hair is longish. And the controversy that has dogged his work is about to hit the boiling point.

Over the past several years, Rubin has increasingly adhered to the loose group of concepts known as peak oil. Since the age of hydrocarbons got underway in southern Ontario back in 1858, the world has increased daily oil production from zero to 86 million barrels per day. But that's about it. That production number is not going much higher. In fact, we may be in for declines in the years ahead. That, in a nutshell, is peak oil.

Rubin has been one of the original thinkers and writers on this idea in Canada (along with David Hughes, a retired Canadian government scientist). And he's now about to go mainstream with it. Random House is simultaneously launching Rubin's book in the U.S., U.K. and Canada, and the tour will begin in New York before moving through Washington and then on to Canada. So Rubin is getting the grand tour at a time the publishing industry is suffering—a sign that someone smells a bestseller here.

"I THINK THE ECONOMY OF THE FUTURE IS GOING TO BE MORE LIKE THE '60s OR '70s."

Many will no doubt see this as Rubin's attempt at a "big book," not unlike that other big name on Bay Street, BMO Capital Markets' Sherry Cooper. But to the peakists, it's about time the idea moved into the mainstream.

M. King Hubbert, a Shell Petroleum Co. scientist who developed the method for estimating future production upon which peak-oil theory is based, predicted global production would max out about now and then go into long-term decline. (The peak in global discoveries, Hubbert argued, was way back in the 1960s.) And recent data on oil production increasingly suggest Hubbert was right. The traditional assumption of economics—that higher prices bring on more supply—is not

working out the way the textbooks say it should, argues Rubin, and after 150 years of searching, there are just not that many big new sources of oil to be found. We're now bumping up against the ceiling of production, at a time when millions of new drivers in Asia want the same lifestyle westerners enjoy. "We had record prices in 2008, yet that failed to bring any new production out of the closet," says Rubin. "I think that tells you this is not about economics, but geology."

THIS COULD BE THE MOST IMPORTANT message delivered by an economist since everyone started talking about globalization. It is certainly a long way from Rubin's days growing up in the Toronto suburb of North York; his father was a research director at Canada Packers, his mother a homemaker. Rubin developed an early interest in economics—Karl Marx, he says, was a big influence back then—and went on to study at the University of Toronto, where he got his BA, and then at McGill for his MA.

His first job out of university was at what is now the Ontario Ministry of Finance, which along with the Bank of Canada was a typical career placement for a macroeconomist from the region. After six years, Rubin moved on to Wood Gundy, the storied independent investment bank, where he did analysis and research as a senior staff economist. He moved up to chief economist there and, when CIBC bought Wood Gundy Inc. in 1988, Rubin eventually found himself chief economist of CIBC World Markets. "I never thought I'd be in investment banking," he says today. But he spent the next 20 years there, forecasting the future of the TSX, getting up in front of clients to talk about trends and coming up with his own models on the future health of the Canadian economy.

Rubin began gaining a reputation for outrageousness early on—predicting in 1989 a 25% drop in Toronto housing prices. That got a lot of people's attention, and almost got him fired from Wood Gundy. But it also turned out to be right. The Rubin brand grew—which didn't hurt CIBC World Markets, either. "He's good at getting their name in front of the cameras," says one Bay Street source who didn't want to be identified.

Now he finds himself saying goodbye. Rubin says the time was right. "I've been calling the TSX for years, and I'm done with that," he explains. "It was time to go. And that's likely fine with the bank." Some have wondered if perhaps the bank, in this new more officially modest financial environment, wouldn't rather have their economists staying out of the lights anyway. "The conclusions in this book don't line up with a lot of the businesses they're in, and that's fine," Rubin claims. "I'm sure they're just as happy I left."

Rubin began working peak oil into his thinking after reading a book by Colin Campbell, a retired petroleum geologist living in Ireland. After working around the world for years for many large oil companies, Campbell was convinced Hubbert was right, and founded the Association for the Study of Peak Oil & Gas, a group that allows retired engineers and others to talk freely about the issue. "If you talk to these guys, the retired engineers, you see they're saying something different than what the companies are saying," says Rubin, who visited Campbell in Ireland in 2000. "They're saying there is something wrong. And that's something you can only say once you're out of the company."

Remember, as recently as 1999 most forecasters assumed the price of oil was heading lower. In fact, a now-famous *Economist* article suggested in March that year that oil was headed to just US$5 a barrel in the 2000s. But Rubin, who

began incorporating peak analysis into his economic models after his return from Ireland, didn't agree. The promises of technology were not going to turn out as many hoped. In 2000, Rubin came out with a shocking call: oil was not going to $5 but in fact would hit $50 by 2005.

That seemed to fly in the face of everything everyone knew to be true. But it also turned out to be right. By February 2005, oil hit $50. Then Rubin stepped in with an even more controversial call: oil was now headed to $100 by 2007, and would hit $200 by 2012. He was close: the price of oil actually hit $100 early in 2008 but then flew through that to touch $147 on July 11, 2008, a record high.

The jury is still out on the second part—West Texas Intermediate recently traded at about $60, up from just $35 a few months ago—but Rubin's ideas seem to be moving into the mainstream. Raymond James, a Houston-based brokerage, released a report in early May suggesting global oil production is now on the downside of Hubbert's curve. Even Cambridge Energy Research Associates, a mainstream oil forecasting service that has been the biggest anti-peak voice, now admits oil production may eventually hit an "undulating plateau."

If Rubin is right, the world is now going to see the other side of the massive expansion of petroleum supply that over the past 150 years moved us from horses, coal-powered trains and ships to cars, air travel and plastic. As the amount of free-flowing oil begins to decrease, a reversal in that expansion will occur. And other sources of energy simply will not be able to make up the difference.

Think of it this way. An onshore oil well in Saudi Arabia in the peak of the oil discovery age—such as Ghawar, the world's largest, discovered in 1948—would have delivered an energy return on energy invested (EROEI) of 100 to 1. That is, for every unit of energy you put into this energy source, you got back 100 units. By stark contrast, nuclear power plants deliver an EROEI of just 10 to 1. Even worse, traditional oilsands production yields an EROEI of 3 to 1. And so, as the amount of free-flowing light sweet crude decreases, we are increasingly going to move toward more expensive, lower-return fuels. The result will be more resources devoted to primary energy production, which means less free energy for all of the extras—like, say, a radically overbuilt consumer economy that underpins current mall culture.

But there is hope. "The challenge now is growing GDP from that 86 million barrels [a day]," says Rubin. "Peak oil could mean peak GDP. But it doesn't have to if we can de-link economic growth from oil." Manufacturing, he thinks, will move back to Hamilton and Cleveland and the Ruhr; China and America will grow more distant as global trade networks decay. "Your new mantra is: Distance is money," says Rubin. "The entrepreneurs who will do well are those who can pull together local manufacturing networks." He sees people going back to modes of thought and action that were washed away by cheap oil. We'll repair things rather than throw them away, and that will be good. "We'll see the end of the single global consumer," Rubin says. "I expect that we'll see local tastes and preferences re-emerge."

So it's not going to be a complete disaster. Canada will get through this, says Rubin—unlike some of the more radical doomers who expect a fascist leader to be elected in the States in the years ahead as the middle-class is wiped out (à la Germany in the '30s). "People respond to a crisis," he says. "I think we'll be OK."

So get set. If Jeff Rubin says something is coming, you better listen. Love him or hate him.

WHY YOUR WORLD IS ABOUT TO GET SMALLER

Maverick economist Jeff Rubin's book on peak oil and the end of globalization

ALSO: Ishiguro's Nocturnes. Armenia's Nightmare. Nino Ricci's Trudeau. Seven Jewish Children Revisited

Books, Page 8

Globe Books

ECONOMICS/ENVIRONMENT

WHY YOUR WORLD IS ABOUT TO GET A WHOLE LOT SMALLER
Oil and the End of Globalization
By Jeff Rubin
Random House Canada, 265 pages, $$29.95
REVIEWED BY **TODD HIRSCH**

Goodbye, globalization

The global economy, bullishly propelled for decades by cheap oil, is about to come face to face with reality

Is there life after serving as one of Canada's most well-known and controversial bank economists? Jeff Rubin is going to find out.

The former CIBC World Markets guru made quite a name for himself over the years with his wild predictions and out-on-a-limb forecasts; some of them actually proved accurate. And now he's spinning that notoriety into a new career in the book-and-speaker-tour industry. Already highly in demand as a conference speaker, Rubin is about to get a whole lot busier (and burning a lot more jet fuel in the process).

His new book, *Why Your World is About to Get a Whole Lot Smaller: Oil and the End of Globalization*, presents a compelling argument that our entire global economy has been propped up by seemingly endless supplies of cheap oil. But take heed: The day of reckoning is nigh! Rubin sets up the book with some blushing accolades for his forecasting prowess, mentions of his appearances on CNN and in The Wall Street Journal, and stories of how he told an audience of skeptical Calgary oilmen in 2000 that oil was going to burst through $100 a barrel.

But once you get past the bit of self-congratulating in the introduction, the book is a great read, and one that should be required for anyone with a long-term interest in Canadian energy, transportation, manufacturing or agriculture.

The book is clearly written for the U.S. market (notable through words such as "check" instead of "cheque" and pricing gasoline in dollars per gallon). Yet other countries, such as Australia, Britain, New Zealand and yes, Canada, too, are featured prominently in his examples. And while Rubin may be fishing for U.S. sales and speaking engagements, he mercifully doesn't masquerade as an American. Dozens of times, he mentions examples and statistics from Ontario, and clearly refers to Toronto as his home.

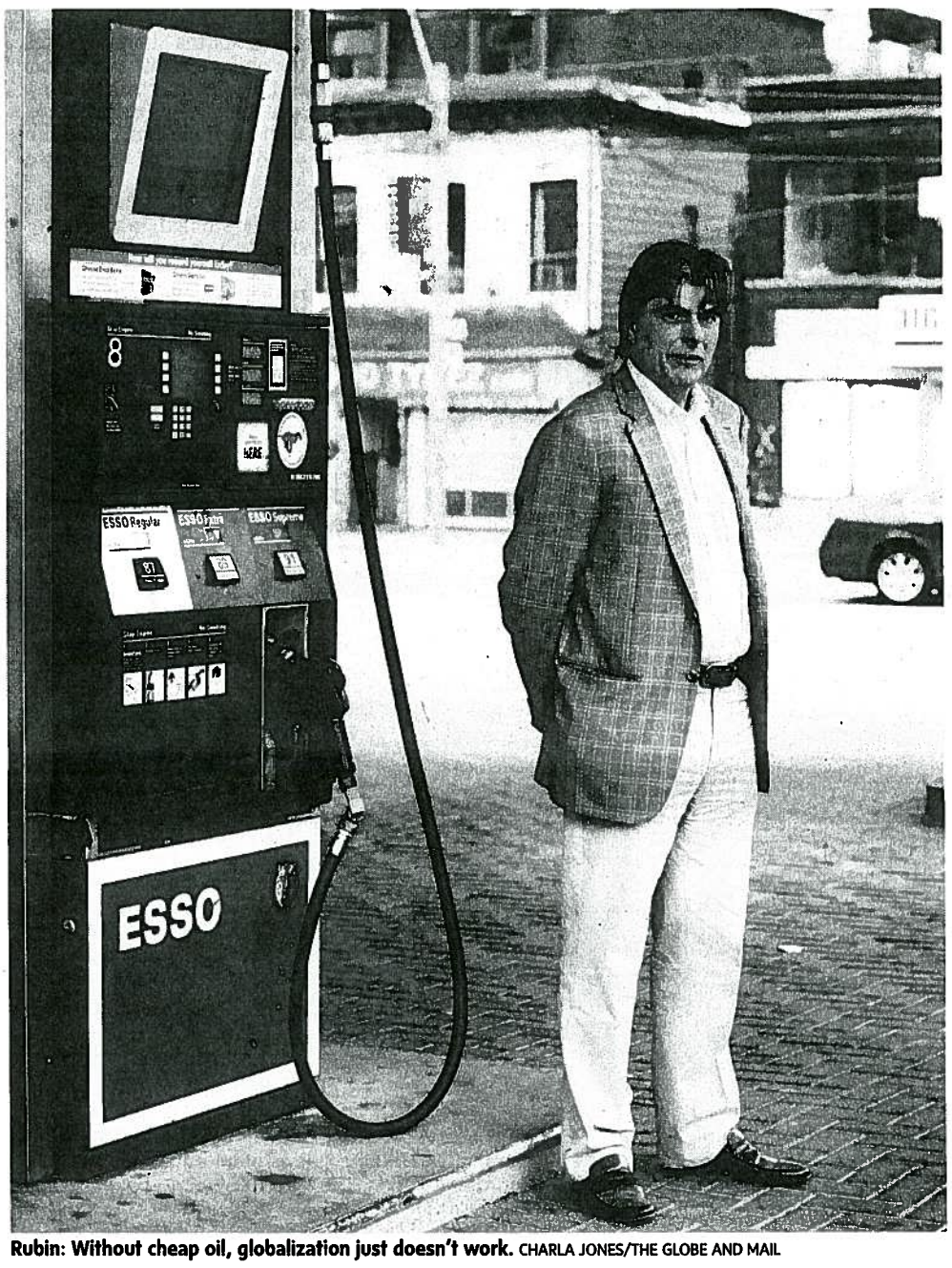
For an economist, Rubin has an unusually engaging writing style. The book is chock full of numbers and statistics, but he has woven them into very readable prose. He also uses imagery and allegory to good effect, such as the reference to playing table tennis on a moving train: The ball may appear to be bouncing back and forth, but in the grand scheme it's really moving only in one direction. That image describes beautifully what happens with oil prices – rising and falling from time to time, but really on an unstoppable upward trend.

The case is made that the global economy, which was propelled over the 20th century by cheap oil, is about to get a nasty slap in the face. The day of cheap oil is over. We are drilling through thousands of metres of sea water and bedrock to get at the stuff, and boiling it out of the frozen, mucky sand of northern Alberta. The effort has signs of desperation written all over it.

And without cheap oil, globalization doesn't work.

Ah, but what about technology? We can find better ways to burn oil, invent more efficient vehicles and develop less costly ways to heat our homes. Technology will save us, won't it? Not according to Rubin, who argues that all of the impressive gains in efficiency over the past 50 years have done nothing to reduce overall consumption. All they have done is to reduce the cost to consumers, thus encouraging even larger homes and vehicles.

Yet Rubin's talk of peak oil and depleting supply isn't really new. In some ways, most of this book has been written dozens of times already. No serious economist would deny the premise of "peak oil" or, at the very least, that "plateau oil" is upon us, save for the vested interests in the energy patch with share prices to protect.



Rubin: Without cheap oil, globalization just doesn't work. CHARLA JONES/THE GLOBE AND MAIL

The book's more valuable contribution is in the description of how the depletion of cheap energy will make our world smaller. (Actually, I think he's got the analogy wrong; rather than getting smaller, our world is about to get much, much bigger. China will seem much further away. Grapes imported all the way from Chile will be an extravagance. If globalization made the world smaller, costly oil is about to make it bigger once again. But this is a quibble.)

It's unfortunate that Rubin reserves only the last 56 pages for a discussion of how the local economy is about to make a big comeback, since this is the more interesting and unique part of the book. Is there hope for North American manufacturing after all? Will local agricultural production reverse its downward trend? He argues that a locally based economy could be revived in an era of ever-rising energy prices, but it's too bad he doesn't play up a bit more the potential benefits of local versus global.

For example, while North American consumers have enjoyed lower prices on goods from China over the past few decades, are we really better off? Children's toys are a good example. Anyone with children, nieces or nephews can attest to the fact that we've absolutely buried our kids in an avalanche of cheap toys. Most of us baby boomers or Gen Xers are still shackled with the mentality that more is better. But heaping more cheap (sometimes poisonous) toys on kids than they could possibly play with in one childhood is definitely not better.

Rubin is spot-on with his conclusion that we had better brace ourselves for some changes in the way we eat, the way we travel and the way we take for granted the ever-increasing abundance of inexpensive consumer goods. Using less energy will simply not be an option. And one gets the impression he actually believes that our society will be better off for it. But it would have been nice to hear that case made more forcefully and optimistically from this not-so-dismal economist.

» Todd Hirsch is the senior economist for ATB Financial, a full-service Alberta-based financial institution, a writer for the Calgary Herald and The Globe and Mail, and teaches economics at the University of Calgary.

Oil and our lives

PETER HADEKEL
Special to The Gazette

Saturday, May 23, 2009

Why Your World Is About to Get a Whole Lot Smaller:

Oil and the End of Globalization

By Jeff Rubin

Random House Canada, 286 pages, $29.95

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CREDIT: ALLEN MCINNIS GAZETTE FILE PHOTO

Jeff Rubin, whose credibility took a hit after oil prices began to collapse in the second half of 2008 along with the economy, still maintains that prices will go up sharply in the next economic cycle.

Last spring, when oil prices were breaking through $145 U.S. a barrel, Jeff Rubin went out on a limb. Then serving as chief economist for CIBC World Markets, Rubin predicted that oil was headed much higher: to $225 a barrel within four years.

He didn't have a lot of company among fellow economists, many of whom were predicting an imminent end to the oil bubble.

Of course, you know what happened next. Oil prices began to collapse in the second half of 2008 as the economy went into a tailspin. From its peak of $147, oil fell below $35.

Rubin's credibility took a hit, although, in his defence, the record shows he was right when he first began to call for $100 oil a few years ago.

Current prices have edged up to around $60 recently - a level most forecasters say is about right, given the global recession.

But none of this has deterred Rubin from his aggressive prediction that oil will sail past its previous high and break $200 in the next economic cycle.

The arguments are laid out in his new book, Why Your World Is About to Get a Whole Lot Smaller. As the title suggests, he believes the price of energy is the single most important factor in maintaining both globalization and the high-consumption lifestyle that much of the world has adopted.

Take away cheap oil and the world gets a whole lot smaller. Trade - either by air cargo or ship container - begins to shrivel. The tourist industry that many nations depend on starts to wither.

California strawberries and New Zealand lamb disappear from your supermarket. Suburbs turn into ghost towns as commuters ditch cars and move closer to city centres and public transit.

Rubin is not the first to make the link between oil, globalization and consumer values. There's little doubt that oil above $200 would wreak havoc on global trade and consumption.

The real question is whether he's right that prices will reach that level. There's plenty of debate among experts on the economics of oil supply and demand.

During last spring's spectacular run-up in crude prices, for example, many analysts said the increase went way beyond market fundamentals, blaming it on speculative trading by investors.

Traditional thinking in oil-industry circles is that supply is a function of price. When supply gets tight, prices rise. And when prices rise, two things are supposed to happen: demand should tail off and more oil drilling should occur, which then adds to supply and restores a more balanced market.

There are plenty of oil reserves still in the ground, the theory goes, and once prices rise to a sufficient level, there will be more drilling to meet future demand.

Rubin isn't buying this analysis. During last spring's spike in prices, despite a big drop in U.S. gasoline consumption, global demand remained strong. This was particularly true in places like China and India, where domestic prices are subsidized.

Even more alarming was that sharply higher prices did not unleash a gusher of new drilling. Big oil companies largely sat on their hands (although Alberta's tar sands hummed with activity).

Why worry about this? Because oil resources are being depleted at a rapid rate - we're losing nearly 7 per cent of conventional supply a year. And new supplies are not growing fast enough to compensate for the decline.

One problem is the cost and complexity of tapping unconventional oil reserves in the deep sea and in oil sands. Another is that several oil powers - Russia, Venezuela, Nigeria, Iran - are not particularly friendly to private investment.

Where the book is on shaky ground is in its assertion that high oil prices caused the current global recession. Just about every other analyst would blame the meltdown on the overextended banking sector.

Also debatable is the claim that the world will adopt a carbon tariff to deal with global warming. Such a tariff would have a dire impact on China, given the amount of greenhouse gas it produces, and would, Rubin says, force plants to close and jobs to return to North America.

That analysis may appeal to unions in North America, but whether it's possible under world trade rules is an open question.

Still, Rubin makes a convincing case that prices are bound to rise. Over the next five years, we will need to replace nearly 20 million barrels per day of cheaply produced conventional oil just to stay where we are, let alone feed the emerging world's growing oil addiction.

And his main point is hard to dispute: If the world starts to run out of affordable oil, we'll all have to make a radical lifestyle adjustment and focus on the local rather than the global economy.

Peter Hadekel writes a column in The Gazette's Business section.

CLOSE WINDOW

Calgary Herald

Oilsands the wrong whipping boy

Wednesday, May 20, 2009
Page: D1
Section: Calgary Business
Byline: Deborah Yedlin
Column: Deborah Yedlin
Source: Calgary Herald

The self-described environmental activist group Greenpeace is not letting up on its single-track mission to stop oilsands development.

This week's targets included Royal Dutch Shell and Norway's StatoilHydro, both of which are active in Alberta's oilsands, and held their annual meetings Tuesday.

Given that the headlines coming out of the Shell meeting had to do with shareholder votes regarding executive pay and mentioned nothing of the oilsands, one surmises that Greenpeace's agenda of pressing the company on its oilsands intentions did not succeed.

The same story repeated itself in Norway, where the activist organization had brought forward a motion that would have seen StatoilHydro pull out from the oilsands. This, despite the support from a Swedish pension fund.

What's clear in both instances is that Greenpeace needs to get a better handle on how the global economy works, the economics of energy and the circumstances that have transformed the oilsands from being the tar that once lined canoes to an important source of energy.

"It's clear that all the environmental factors are of concern south of the border and around the world," says Roman Cooney, vice-president of communications for the Canadian Association of Petroleum Producers. "But when you have a nation that offers an improved, and improving, environmental performance, coupled with political and economic stability that will make us one of the best energy partners and providers in the world, it's easy to under-stand why StatoilHydro and Royal Dutch are here."

While the oilsands do have their environmental challenges, Greenpeace would be better served by acknowledging the real problem isn't the oil produced from the oilsands--it's the emissions from coal-fired electricity, not to mention the dinitrous oxide that is generated as part of the fertilizer production process.

On Tuesday, U. S. President Barack Obama triumphantly announced new mileage standards for vehicles that will reduce dependence on oil by 1.4 mil-lion barrels a day by 2020 and save $30 billion US --assuming gasoline prices average $2.25 US per gallon (59 cents US a litre).

Of course, the cost of the new cars will be higher, but the theory is that consumers will recover that, and more, in reduced fuel costs.

There is no question this initiative is long overdue. But here is the reality check: transportation-related emissions account for 28 per cent of what is spewed into the U. S. atmosphere.

In fact, making sure everyone's tires are properly inflated would achieve the same in terms of reducing emissions through efficiency gains as would adding ethanol to gasoline.

The bigger culprit is the amount of energy used by businesses, industry and households. And guess what? This relates more to electricity consumption than it does to gasoline, because half of U. S. electricity is generated by coal-fired plants.

The bigger culprit in the emissions game--at least for now-- is China, which continues to build coal-fired power plants at a rate of one per week. The numbers suggest that if this trend continues, there will be more power plants in China by 2020 than in the rest of the world.

But of course, it's easier to target western-based companies in democratic countries than it is to go after government-controlled businesses in countries where transparency isn't exactly in evidence. Just ask Amnesty International about that.

As a result, it's the oilsands with its dead ducks that will likely continue to be the whipping boy for the energy sector. For Greenpeace, the fact the oilsands account for one-tenth of one per cent of global emissions is nothing more than an inconvenient statistic.

Perhaps it might help to look at things another way.

"As the CERA (Cambridge Energy Research Associates) report clearly demonstrates, oil will likely be the primary driver of growth for decades to come, even if the energy mix has a larger component of renewables," said Cooney.

It's a fact echoed in a book recently published by Jeff Rubin, the former chief economist of CIBC World Markets.

His book, Why Your World is About to Get a Whole Lot Smaller, effectively points out the link between global economic growth and oil. Much like the CERA study, Rubin is clear that oil and other hydrocarbons are going to be part of the global energy mix, whether Greenpeace likes it or not. But he also talks about the impact on the economy and

consumers of the fact that the world's cheap oil reserves have already been discovered. This leaves the more expensive options such as the oilsands and the deep water pools offshore Brazil as being the primary sources of new reserves that are not controlled by national oil companies or their associated governments.

The bottom line in all this is that it's not as simple as saying the oilsands are bad, and production should stop. It is, as Rubin writes, part of a complex issue that carries with it global socioeconomic implications. Green-peace might be well-advised to take notice.

CJN Profile

Price of oil dictating shape of new economy, says Rubin

By SHELDON KIRSHNER
Staff Reporter

It's all about oil, says Jeff Rubin, one of Canada's leading economists.

Best known for his work on global energy markets and his prescient forecast that oil prices would skyrocket, Rubin has just written a book about the shape of the future international economy.

In Why Your World Is About To Get A Whole Lot Smaller: Oil and the End of Globalization (Random House Canada), he brings bad news and good news.

As supplies dwindle and demand jumps, he expects the price of oil in Canada to rise to $2 or perhaps even to $2.50 per litre within two or three years.

"There is no such thing as cheap oil," said Rubin, who recently resigned as chief economist of the Canadian Imperial Bank of Commerce. "Oil might be less expensive in the middle of the recession, but it will never be cheap again."

But as punishing oil prices jolt the economy and reverse the trend toward globalization, long lost local economies will re-emerge and the world will become a greener, more environmentally sustainable place, he said in an interview last week at his publisher's office.

If you think that Rubin is dreaming or making it up as he goes along, consider the fact that he established a credible track record as an economic guru on the strength of another successful prediction.

Rubin, who holds degrees from the University of Toronto and McGill University, correctly warned financial markets back in 1989 that Toronto real estate values would decline by 25 per cent.

He figured that the housing market was long overdue for a correction because the federal government wanted to curb inflation, which was being fuelled by the spiralling cost of residential homes.

Rubin, too, was instrumental in influencing government policy.

When he called for the Goods and Services tax to be set at seven per cent instead of the original 10 per cent, the finance minister of the day was hardly pleased.

Nor was Rubin's boss happy with his recommendation. "I was almost fired," said Rubin, who was CIBC's chief economist for 17 years.

Rubin was proven right. In the end, the government settled for a seven percent rate.

Rubin, 54, the son of a research director of a Canadian industrial lab, began to think seriously about carbon emissions when he concluded that oil is anything but a finite resource.

"I hooked up with people who were familiar with the issue of depletion," he explained.

In his easily accessible and cogently argued book, he sets out his central argument:

"The world's oil wells are running out of the stuff that keeps the whole system going. Every well will eventually run dry ... Even with the most advanced technology, oil companies get barely half of the oil out before geophysics and economics conspire to make what's left not worth going after."

Take the United States, for example.

Since the 1970s, U.S. oil production has been halved, from 10 million barrels a day to five million today.

Jeff Rubin

[Greg Tjepkema photo]

Yet, as oil consumption has risen from 15 million barrels a day in 1970 to almost 20 million today, Americans are burning more oil than ever.

The conclusion is inescapable, at least according to Rubin.

"We are not going to wake up tomorrow and find that the world's oil wells have run dry," he writes. "But we will face the dawning realization that there is a little less each day, and that what remains will cost more to burn.

"Eventually, we will face the wrenching choice between adapting to the realities of a new, smaller world or clinging to the artifacts of an old world we can no longer have."

Fleshing out this theme, Rubin observed, "Triple-digit oil prices will render the global economy obsolete and revitalize local economies. Hence, our world will become smaller and greener."

On the most basic level, American winter fruits may become exorbitantly expensive and therefore out of reach to the average Canadian.

"We won't be eating California oranges in January," he said. "We'll have to be satisfied with Canadian apples. We'll have to adjust our diets."

Frozen lamb chops from New Zealand will also be affected by the coming changes, he noted.

"It burns too much oil to shlep New Zealand lamb to Canada. Distance costs money and produces carbon emissions."

As far as the consumption of food is concerned, Rubin believes that the brave new world is already upon us.

"I see this happening very quickly. In my neighbourhood, we see only locally grown produce."

He added, "Food imports will become less and less important. Last year, the United States bought $6 billion worth of food from China. That's not tenable anymore."

Chinese steel exports will also take a hit, with the result that rust-belt jobs in the United States will return, he pointed out.

Soaring oil prices will have an impact on real estate as well.

If gas costs $7 a gallon in the United States, commuters from the suburbs will frantically look for homes in the city, where prices will rise correspondingly.

Cities will become more densely populated and suburbs may yet be converted back to farm lands.

"Urban sprawl doesn't make sense anymore," he said.

The auto industry, already reeling from falling demand and higher prices at the pump, will shrink in this harsh economic environment.

"Detroit makes twice as many cars as we need. There are 248 million vehicles on the road in the United States at the moment. Twenty per cent will be yanked off the roads as people stop driving. The message is – get off the road. That's where the market is taking us."

In a smaller world, the ordinary Canadian may cancel a cycling trip to Tuscany and opt for a vacation in Muskoka or the Catskills instead.

"We won't travel around so much, and some destinations will definitely suffer. It'll have a beneficial effect on the environment. We'll have a more greener world. We won't go green because of some moral commitment, but because the market will lead us there."

Rubin's timely book has struck a chord, having also been published in the United States and Britain. In addition, German and Croatian language rights have been sold.

Having reinvented himself as a writer and speaker, Rubin intends to write more books.

In his next one, he hopes to explore themes he merely touched upon in his current volume.

As he put it, "I never run out of stuff to say."

ECONOMY

A coming world that's 'a whole lot smaller'

BY DAVID PARKINSON

Until two months ago, Jeff Rubin was the audacious chief economist and chief strategist at CIBC World Markets, a high-profile pulpit from which he preached his unconventional and occasionally controversial views on economic matters for nearly two decades.

His blunt talk and bold predictions didn't always win him friends, but his penchant for being right, more often than not, had won him international respect – and made him CIBC's most public star.

But when he informed his employer that he had already written and was about to publish *Why Your World is About to Get a Whole Lot Smaller* – a new book on the socioeconomic ramifications of rising energy prices, which hits bookstores today – he says his bosses weren't happy, with either the surprise or the subject matter.

CIBC declined to discuss its concerns with the book or Mr. Rubin's departure.

"I never asked for permission and they never gave it," Mr. Rubin said in a recent interview. "I had a choice. I could continue doing a job that I thought I had been reasonably successful at for the past 20 years, or I could publish my book. For me, it was a no-brainer," he said.

» SEE 'RUBIN' PAGE 8
DeCLOET, PAGE 2 »

ON THE WEB

Jeff Rubin live

Who's to blame for the collapse of the world economy? It's not the subprime lenders or the Wall Street fat cats, it's all of us and our unquenchable thirst for oil, Jeff Rubin says. Watch the video from his publisher on the new GlobeInvestor.com. Engage Jeff Rubin in an online discussion tomorrow at 12:15 p.m. EDT.

GLOBEINVESTOR.COM »

FROM PAGE 1 » RUBIN

Economist and author Jeff Rubin believes oil prices are going to surge again and change the way we live. CHARLA JONES/THE GLOBE AND MAIL

Reversal of globalization foreseen

So what was so important that walking away from a two-decade career at CIBC was a "no-brainer"?

Only his prophecy of how ever-higher energy costs will fundamentally change the way each and every one of us live our day-to-day lives – from where we work to what we eat to where we lay down our heads at night, and everything in between.

Mr. Rubin has taken his long-standing forecast that inevitably declining production and rising demand will send oil prices inexorably higher – over $200 (U.S.) a barrel by 2012 or earlier, just for a start – and imagines how the world will have to change to adjust to such a reality.

"This book is not about how to make money. It's [about] how you change your life," he said. "What car you drive next, where you live, what are the industries where you're likely to get a job, what are the industries where you're likely to lose a job. Where are you likely to go on your next vacation, where are you likely never to go on a vacation again. What kind of changes are you going to make to your diet. Those kind of things."

By Mr. Rubin's own account, his deep interest in the big-picture oil puzzle had increasingly moved him away from the typical day-to-day research of an investment bank.

"I think the kinds of things that I was working on, and where our research had gone in the past couple of years, maybe an investment bank wasn't the best platform for that kind of research or those kinds of messages," he said.

Like many oil crisis prophets, Mr. Rubin is a disciple of "peak oil" theory – the concept that world oil production is near its peak, and is destined to a long, slow decline, as existing low-cost oil fields dry up and new supplies become harder and more expensive to unlock.

Less than 10 years ago, the theory was so little known and held in so little regard that, when Mr. Rubin gave a speech to Calgary's Petroleum Club explaining it, he was met with a mixture of disbelieving stares and dismissive guffaws. That was before $140-a-barrel oil awakened the world to the peak oil threat.

"People have to realize that this is not a shock, it's a permanent set of conditions that we have to adapt to," he said. "I think that's a lot easier sell than when I first started articulating this message eight, ten years ago."

But unlike many previous peak oil books, which typically don't get much past "we're in big trouble," Mr. Rubin's conclusions are refreshingly optimistic. His world of the oil-starved future, at least for Western societies, looks a lot like the bygone years of our fond memory, where people work and vacation nearer to home, eat locally grown foods and buy locally produced goods, and suburban sprawl is replaced by revitalized cities.

"I think it will really restructure the economy in ways that people haven't even begun to imagine," he said. "But I think, ironically, it's going to be a return to the past … in terms of the re-emergence of local economies."

Indeed, the book's title is derived from this central argument – that expensive fuel will force a reversal of globalization, as long-distance trade becomes increasingly expensive and impractical. The only alternative may be a relentless cycle of economic shocks triggered by oil price surges.

"Chances are, we're going to bang our head on this oil constraint very soon in an economic recovery, unless certain things change. And I don't think we're going to have to wait five years to test that Rubin hypothesis. I think in the next six to 12 months you're going to see that," he said.

"There's a lot of historical context to suggest that we can change, that things have evolved in response to economic signals," he said. "But in order to change … we're going to have to rearrange a whole lot more things than perhaps we recognize."

A shrinking of global trade suggests massive disruptions for an export-driven economy such as Canada's. Yet, paradoxically, Mr. Rubin sees this as just the medicine to revive Canada's dying manufacturing sector. He believes soaring transportation costs, combined with an eventual imposition by governments of costs on greenhouse gas emissions, will wipe out Asia's huge competitive advantage on labour costs and revitalize manufacturing of goods closer to home.

"Those manufacturing jobs left when all that mattered was the labour cost differential. But that was in a world of $20 oil, zero [cost of] emissions," he said. "In a world of $150 oil, $40-$50-a-tonne emissions, the market will bring those jobs back."

This is the sort of big-thinking economics that has filled bestseller lists in recent years, and Mr. Rubin and his publisher, Random House, expect the book to garner attention on a global scale. He doesn't see returning to the world of investment banking, but at 54, he isn't ready to retire, either. He hinted that this book might not be his last on the subject.

"There are a lot of areas you could go with this that I don't really think I've exhausted, by any stretch of the imagination. But I only really wrote this in four months.

"I've got time."

Rubin in focus

BORN Aug. 25, 1954, Toronto.

LIVES East-central Toronto neighbourhood of Riverdale.

FAMILY Married to Deborah Lamb, former reporter for CBC's *Venture*. (They met when she interviewed him for a story in 1990 on the recession.) Son Jack, 14, and daughter Margot, 12.

EDUCATION Graduate degree in economics from McGill University; undergraduate degree in economics from University of Toronto.

CAREER After seven years with Ontario's Ministry Of Treasury And Economics, joined CIBC in 1988 as senior economist. Named chief economist of CIBC World Markets in 1992. Added title of chief strategist in 2003.

WINNING CALLS Predicted the bursting of the Toronto housing market in 1989. Predicted in 2000 that oil would top $50 (U.S.) a barrel by 2005. Predicted in 2005 that oil would top $100 a barrel within two years.

ACCOLADES Ranked as Canada's top economist 10 times by Brendan Wood International.

CURRENT CAR 2000 Audi (he likes the stick shift).

NEXT CAR Probably a hybrid (no stick shift).

» *David Parkinson*

QUOTED

A selection of quotations from a recent interview with former CIBC World Markets chief economist and chief strategist Jeff Rubin, talking about his hew book, *Why Your World is About to Get a Whole Lot Smaller.*

(On the threat of more oil-driven recessions to come)
"That will all depend on how quickly we move away from oil consumption. Otherwise … peak oil becomes peak GDP, which is a pretty pessimistic and linear way of thinking. Nevertheless, the only way that's not going to happen is if we change the relationship between oil and GDP."

(On public policy to adjust to prohibitive fuel costs)
"What we need now is something equivalent to the U.S. Highway Act in 1956, when all of a sudden the U.S. decided to build an immense road infrastructure. … We need to do the equivalent in public transit. … Detroit's problems are now permanent and structural, they're not cyclical. There will be no recovery in auto sales."

(On policies to impose costs on greenhouse gas emissions)
"The big loser on this is not going to be Canadian oil sands. It's going to be Chinese steel and manufactured exports that are being powered by coal plants."

(On the impact of soaring fuel costs on the flying of people and goods around the world)
"I think we not only will lose sushi, we'll lose airlines. And we'll certainly close airports that we've recently built. Whether we're talking about Toronto's mausoleum to the past stage of energy, the new terminal, or we're talking about the Heathrow terminal, air traffic is just not going to be sustainable in this world to the extent that we've now come to accept."

» *David Parkinson*

EXCERPT

'A threat to global economic growth'

It is funny how a recession looks like good news to some people.

When global credit evaporated in the wake of the 2008 subprime mortgage crisis, oil prices tumbled along with the values of the world's stock markets. Seemingly overnight the price of a barrel of oil plunged from an all-time high of $147 (U.S.) a barrel to as low as the high $30s. Predictably, those who had piled into oil markets scrambled for the exit doors, especially hedge funds and other investors who were forced to sell their oil positions to come up with some money to cover the losses they were sustaining in the rest of their portfolios. And, just as predictably, what many observers concluded from watching prices fall was that there must not have been an energy scarcity problem after all, and that triple-digit prices had been just a speculative blip.

Of course, most of the commentators saying that were people who had never thought oil prices would ever get above $50 per barrel in the first place. Sure, if you think the market is going to solve the problem of high oil prices and then the price drops, you might be tempted to think that the market has done what you had such faith it would.

But no one said that oil prices will never fall. In fact, increasingly wild and destructive movement in prices is exactly what you would expect in an environment of global scarcity. Oil demand will drop in a recession, and so will the price of oil. So that can't be a surprise to anyone.

But we shouldn't be looking at oil prices as the effect of the recession. They are the cause. While the financial crisis from the imploding U.S. subprime mortgage market gets top billing for the 2008 recession, the ascent of oil prices to record triple-digit levels played a far more major role in derailing growth in the North American and European economies.

To claim that the price decline is evidence that record prices were the consequence of massive speculation in oil markets is to ignore the underlying problem: a fundamental mismatch between global supply and demand. But what today's skeptics don't explain is why oil prices aren't $20 per barrel, as they were only eight years ago, during the last recession. West Texas prices have hovered around $40 per barrel, and Brent prices, the European benchmark, have traded around $45 even though this recession is well over three times as severe.

There is a good reason prices won't fall that far. The skeptics may not want to talk about it, but at $60 to $90 per barrel, many of the world's largest energy megaprojects, such as the Canadian oil sands, won't go ahead because those prices will no longer provide a sufficient economic return. Finding pocket change is getting pretty expensive these days and it's not going to get any cheaper tomorrow. If you believe that high prices bring new supply out of the ground, you are pretty much committed to the fact that every drop in price means that there is less oil to go around. There may be oil out there under the ground, but no one is going to sign up to lose money pumping it. The laws of economics cut both ways.

In any case, as we will see, it matters less every day how much oil is consumed by the countries of the Organization for Economic Co-operation and Development (OECD), a club of the world's thirty most advanced and wealthiest democracies. We may be easing off on demand in North America and Europe, but elsewhere in the world drivers and policy makers are getting on the accelerator even more enthusiastically than we are getting off. We can cut back as much as we like, yet as long as the Saudis and Venezuelans, the Chinese and Indians keep their feet on the gas, it is not going to matter.

In August 2008, when oil prices peaked, Americans drove 15 billion miles fewer than the previous August, the largest drop since the government started collecting data in 1942. That kind of collapse in demand is part of the reason for the decline in prices. But there are plenty of drivers elsewhere in the world who are more than happy to drive those miles and burn that oil. Even if demand were to stagnate in the rich countries, it is only going to grow elsewhere and eventually catch up to where we were when prices were so high.

But demand is not going to stagnate forever. This recession may be the deepest post-war downturn, but that is just testament to the destructive power of triple-digit oil prices. If $40 is as cheap as oil gets in the most severe recession, what happens to oil prices when the economy picks up again?

Simple. Once the dust settles from the various crises rocking financial markets, we are looking at the same basic demand-supply imbalance that we were looking at before the recession began.

That imbalance took us to nearly $150 per barrel before the recession set in. In the next cycle, the same imbalance will probably take us to $200 per barrel before another recession temporarily knocks back prices and demand.

Economic activity goes hand in hand with energy use. If you want to grow the economy, you need to burn more energy – that's precisely why dwindling oil reserves pose such a threat to global economic growth. If instead the economy falters and begins to contract, less energy is used and hence its price will fall. That doesn't mean that triple-digit oil prices were a temporary aberration, but it does give a sense of how hard it is to keep the world economy running on cheap oil and it should make it pretty clear what happens to oil prices when the recession is over.

Other than lulling us into an unjustified sense of optimism about the future direction of oil prices, a global recession will do absolutely nothing about the unavoidable fact that oil production is nearing a plateau while oil consumption around the world is still rising. Recessions don't diminish our dependence on oil; they just cut back a little on our appetite for it. When we start to feel a little better, we will be guzzling it again, and we may well be left wanting more. Because unlike after past oil shocks, there is no post-shock boost in oil supply to look forward to any more.

If we wait for Adam Smith's invisible hand to pull abundant sources of new cheap oil out of the ground, we are going to be waiting for Godot. Governments around the world may be thrusting bailout money into the hands of businesses and taxpayers, but you can count on one thing. There will be no energy bailout.

ECONOMY

Energy, carbon taxes and the winds of change

DEREK DeCLOET
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The newish Terminal 1 at Toronto's Pearson International Airport – light, bright, and cavernous in size – is a monument to the power of debt and to grand visions of the future. Five years ago, when phase one of the $3.6-billion facility received its first passengers on an Air Canada flight from Vancouver, its promoters rhapsodized about how wonderful it was, then turned their attention to the next step of their expansion scheme. Pearson, they boldly predicted, would need to be big enough to handle 50 million people a year by 2020. (It's at 32 million today.)

Forget it, Jeff Rubin says. Stop building and stop worrying about a wave of travellers that will never come. Long before 2020, we'll see airlines shutting down, Boeings being mothballed, airports closing. The gleaming glass palace of Terminal 1 is a "mausoleum to the past age of energy," he says. It would be a nice place to play a floor hockey game, though, and if Mr. Rubin's forecast comes true, will certainly be empty enough for one.

Commercial air travel, like many other industries, is lubricated by cheap oil. Mr. Rubin, the former chief economist of CIBC World Markets, has now bet his career on a single idea – that the cheap oil era is dead and globalization is about to wither along with it. But the most fascinating part of his thesis has nothing to do with geology or Hubbert's peak oil theory. It's about the reindustrialization of North America. Those unemployed airline workers could be looking for work – and finding it – in the revitalized factories of Southern Ontario.

This, for some, could be expensive energy's upside. It will render foreign manufacturers (read: China) less competitive. We saw a glimpse of this as oil climbed to its peak of nearly $150 (U.S.) a barrel last year. Shipping costs rose so much that North American steel plants began to claw back the advantage over Asian exporters. They were increasing their production, until the U.S. economy imploded.

At $150 or $200 oil, the same shift happens in other manufacturing sectors, Mr. Rubin says. That's especially true if the United States, under President Obama, is able to add a price cost to carbon emissions, because so much of China's industrial production is driven by cheap-and-dirty electricity. "Believe me, the big loser is not going to be Canadian oil sands," Mr. Rubin says. "It's going to be Chinese steel and manufactured exports that are being powered by coal plants. Because that's not going to be on." It's the old-fashioned trade tariff, but wrapped in green. "For once, all of a sudden, saving the environment is bringing jobs home, not sending them away."

Somewhere, the head of the steel workers' union is smiling. But then, so is David Suzuki. "The whole idea of Archie Bunker getting into bed with Al Gore is a whole new political paradigm for us than in the past," Mr. Rubin says. "And while, yes, you could say this is protectionist ... all I'm saying is there is absolutely no point to the U.S. or Canada and anybody else in the OECD taking any measures to reduce their own emissions if the Chinas of the world are free to emit at will."

So the U.S. is going to force Chinese exporters to clean up? Really? Mr. Rubin believes it. "They're going to be raising the bar [on carbon costs] for their trading partners, whether their trading partners want to or not."

Maybe. But nothing's free. It will come at a heavy price for the United States (and, by extension, for Canada). For many years, the driving force of the global economy has been a tacit bargain between the world's largest economy and Asia's most dynamic one. It's a trade – American factory jobs for Chinese money. The U.S. provides a ready market for cheap Chinese goods and (mostly) keeps a lid on gripes about the way China manages its currency and despoils its environment to sustain growth. China, in turn, helps finance America's bulging deficits.

"They take that risk because they believed that their economic growth rates were all about Wal-Mart," Mr. Rubin says. "That's not true any more." In his mind, the Chimerica pact will come apart, eventually. China will focus more attention on trading with Asia and developing its own internal market – so its need to keep the yuan artificially low compared to the U.S. dollar will also diminish.

Thus the Chinese will be less interested in financing America's debt, and U.S. interest rates will have to rise to attract investors to replace that money, Mr. Rubin says. They might have to rise a whole lot. Any business that relies on cheap financing would take a huge hit. ("There will be no recovery in auto sales. You're looking at a market of 7 to 8 million auto sales [annually].") Double-digit mortgage rates seem far from impossible. "This is an inflationary world coming on so many different fronts," Mr. Rubin says.

No wonder CIBC wasn't keen on his book. What he's describing, on balance, is a poorer world, though a greener one. That's not an easy message for an investment bank to sell. But it happens to be what Jeff Rubin is staking his reputation on.

thestar.com

A maverick's message on oil

Jeff Rubin says prices are going nowhere but up, and life as we know it will change forever

May 16, 2009

TYLER HAMILTON
ENERGY REPORTER

COLIN MCCONNELL/TORONTO STAR
Former CIBC chief economist Jeff Rubin prepares at home for the launch of his book, Why Your World Is About to Get a Whole Lot Smaller.

At some point, the message that Jeff Rubin wanted to give began to diverge from the message he was expected to deliver as CIBC's chief economist.

You could see it in his research reports over the past 18 months – talk about the urgent need for energy conservation, the inevitability of carbon pricing, oil at $225 (U.S.) a barrel by 2012, and how the high cost of transportation as a result of peak oil will throw the machinery of globalization into reverse.

His conclusions were frequently controversial and certainly unconventional, particularly in a country so dependent on the global trade of its oil and other natural resources.

Ask Suncor Energy chief executive Rick George about Rubin's prediction of $200 oil and a dismissive smirk follows. "Is he an economist or an entertainer? I guess if you live long enough you'll see anything."

So while it came as a surprise when Rubin, in late March, suddenly resigned from CIBC World Markets after 20 years at the bank's investment arm, it wasn't really a shocker to those who knew the maverick economist best.

"It was only a matter of time," one colleague reflected.

Rubin had just completed a new book, *Why Your World Is About to Get a Whole Lot Smaller*, much of it based on his research at the bank. An ambitious book tour was being planned, and Rubin had to choose between Bay Street and Main Street.

"It didn't really mesh with what the bank was doing so I said, `See ya!'" Rubin explained from his unexpectedly modest home in Toronto's Riverdale neighbourhood. Now a free agent, Rubin, 55, is gearing up to spread his message following the May 23 launch of his book.

Its basic premise is simple: Nearly everything we do, purchase and eat is "inextricably bound" to oil, and as the price of black gold increases, so too does the cost of growing, manufacturing, processing, packaging and transporting the goods we consume – whether they be apples from Australia or dollar-store trinkets from China.

In other words, the higher oil prices get, the more expensive distance becomes. And oil prices, argues Rubin, are going nowhere but up.

"The world's oil wells are running out of the stuff that keeps the whole system going," he writes, adding that the only supply available to replace it is dirty, hard to find, and for that reason increasingly expensive. The oil sands are a case in point. "We are getting closer to the bottom of the barrel."

Eventually, he says, the transportation costs of importing products from far-off countries will erase other advantages, such as low-cost labour. It will become, he argues, "the largest barrier to global trade."

This will lead to more dense communities, less driving, and a reliance on what we produce locally. World trade will revert back to the patterns we saw in the 1970s, when tariffs slowed the global movement of goods and trading was more regional.

Economic growth will come to a crawl and inflation will rise.

Look no further than the current recession for proof, he says. In chapter 7, Rubin lays out in detail how high oil prices, which peaked near $150 in July 2008, led to inflation and rising interest rates that triggered the U.S. mortgage crisis and sent the economic dominoes, including global trade, falling.

"You can liberalize trade all you like, but it won't make a difference if no one can afford to ship the things you want to sell," he writes.

His prediction: Manufacturing jobs are going to return to North America over time. There will be a revival in regional agriculture. Urban farmers' markets will become more plentiful. Travel will be local and certainly not by plane. Dining out will be replaced by cooking in.

Not such a bad thing, he suggests. "We will soon become far more attentive custodians of our own little worlds, and that is likely to make our neighbourhoods better places."

The message is sometimes taken to the extreme, particularly in the final two chapters. But the book is an easy, intelligent read for anyone seeking insight into the relationship between energy and the economy, and it brings perspective that has so far been absent from the peak-oil debate.

Rubin only occasionally touches on environmental issues such as climate change and he downplays the impact of clean technologies, calling electric cars and biofuels "head fakes." It's here where he occasionally exhibits a shallow knowledge of green innovation.

Still, the book meshes well with other recent works, such as Thomas Friedman's bestselling *Hot, Flat, and Crowded*, and it sets the stage for a summer of like-minded efforts, including *Forbes* reporter Christopher Steiner's *$20 Per Gallon*, out in July.

Why should anyone believe Rubin? He accurately predicted oil's rise to $50, then $100, and most recently $150. In 2005 he said the Canadian dollar would reach parity with the U.S. dollar, and it did.

But he's had some big misses, too, including the forecast of an economic recovery in the mid-1990s, which never happened. He also predicted the S&P/TSX would hit 15,000 by the end of 2007 and 16,200 by the end of 2008. Wrong on both counts. He even failed to predict the oil-influenced recession explained so well in his book that sent the index below 7,600 and oil below $40 a barrel.

Rubin acknowledges in the book that many considered him "out to lunch" when oil plunged back down to earth. He reminds, however, that it wasn't that long ago that oil was considered expensive at $40, and that it will shoot back up once the economy begins to recover and fast-rising demand bumps up against slow-moving supply.

Easy, cheap oil is gone, regardless of what the oil giants tell you. One thing he's learned, he writes, "is that it is pretty much impossible to convince anyone of something they just don't want to believe."

More are believing. Analysts at Raymond James said earlier this month that global production of petroleum actually peaked early last year. They called it a "paradigm shift of historic proportions" and urged society to "get ready to live in a peak-oil world."

Time to brush up on those gardening skills.

National Post

Stop the world, Jeff wants to get off

Wed Jun 3 2009
Page: FP15
Section: FP Comment
Byline: Peter Foster
Column: Peter Foster
Source: Financial Post

Those bearing the title of chief economist are often called upon to perform the role of professional groundhog. Jeff Rubin, who was chief economist at CIBC World Markets until a couple of months ago, was a particularly prominent and enthusiastic prognosticator.

In the fall of 2007, he predicted US$100-per-barrel oil and for parity of the Canadian dollar with its U. S. counterpart. He was right, at least for a while. In January, 2008, he was predicting US$150 oil within five years. Three months later he upped that to US$200 by 2012. In fact, oil almost hit US$150 last year, but then came the crash of both financial markets and the oil price.

Unfortunately, Mr. Rubin had also projected in the fall of 2007 that "The subprime-mortgage meltdown in the U. S. is a temporary and non-lethal shock to the bull market in Canadian stocks." And he predicted that the TSE's main index would hit 16,200 by the end of 2008.

He was hardly alone in failing to foresee the extent of the subprime problem, but practitioners of economic macromancy need to be reminded of their cock-ups, particularly when they go beyond mere forecasting to projecting radical visions, or start seeing themselves as Cassandras.

Mr. Rubin has since departed from CIBC. This, he claims, is significantly due to his new book: Why Your World Is About To Get a Whole Lot Smaller. It's easy to see why the bank wouldn't like it. But that's likely not because it's too boldly insightful, as Mr. Rubin might believe. It's because Mr. Rubin has gone from the dismal science to the Dark Side.

The former CIBC star is both a fine writer and an engaging speaker, but he has contracted a bad case of Peak Oil Theory, a condition that afflicts those inclined to anti-materialism, Big Oil paranoia and Pollyanna-ish belief in policy wisdom (But then Mr. Rubin is actually in favour of carbon tariffs, which would collapse world trade faster than you could say Smoot-Hawley).

Mr. Rubin admits to having caught the Peak Oil bug from Dr. Colin Campbell, its leading guru. Dr. Campbell thinks that the plateauing of conventional oil production would mean "the end of economics." Similarly, Mr. Rubin claims to foresee the end of life as we know it, and asserts that "It is hard to say which possibility is more alarming to economists -- that the world has reached its peak oil production plateau, or that the rules of their vocation don't seem to be working any more."

But Peak Oil is essentially a primitive, static theory based on treating the entire energy economy as if it were a single, depleting oil well, underplaying innovation and failing to grasp -- or refuting-- the role of market pricing because, as Mr. Rubin claims, economics only tells "half the story." To argue with a Peakster, meanwhile, is to be cast as someone who "just doesn't want to believe."

Mr. Rubin's take is, like that of most peaksters, profoundly moralistic. Anybody who writes about "the 18-wheeler of globalization" being thrown into reverse is clearly no great fan of world trade. Expensive oil will mean "a severe curb on the free-spending lifestyle." But then he suggests that that life "wasn't particularly great to start with," since "Smog-congested cities, global warming, oil slicks and other forms of environmental degradation are all part of the legacy of cheap oil."

Mr. Rubin's case against trade is based largely on implausibility, or scarcely concealed distaste. How can China ship iron ore from Brazil to make steel for the United States? How can Norwegian salmon be processed in China before being shipped on to Europe? How can refrigerated lamb be hauled all the way from New Zealand? International shipping takes "a ridiculous amount of energy." Similarly, he seems to regard the notion that two tons of sand has to be shifted to extract a barrel of oil from the oil sands as simply too bizarre to require argument.

Mr. Rubin possesses a nostalgic hankering for a world of more poverty and less choice. After all, he never had raspberries in winter when he was growing up in Toronto. He makes typical calls for massive spending on public transit and for "us" to think more like Mr. Rubin (or Al Gore) about reorganizing our lives and the economy, changing our diets, changing the way we live and, above all, changing the way we drive.

Mr. Rubin tries to put a positive spin on his brave new world. Sure, there might be no more avocados or winter blueberries, but soaring transportation costs will mean that those manufacturing jobs that disappeared overseas will now come back. This will mean that your local Starbucks barista is going to find him-or herself on the production line! There will be more jobs for young people in steel mills and on farms than they ever imagined. But will they regard that prospect with joy?

Also, according to Wiarton Jeff, we're going to get a whole lot closer to our neighbours, literally, as

refugees from the suburbs are forced into denser re-zoned downtown living, and the subdivisions are ploughed back into farm land.

"And don't be surprised," he concludes, "if the new smaller world that emerges isn't a lot more livable and enjoyable than the one we are about to leave behind."

Stop the world. Jeff wants to get off.

Moore: 'I was the only 7-year-old who wanted less self-esteem boosting and more structure'

ISSUES &

Teachers as benign dictators

JOHN MOORE

Last month, in a column about newspapers, I wrote of my Grade 6 teacher, Mrs. Miller, and how she introduced us to current events. She was a formidable, sometimes downright terrifying woman who — in the eyes of 10-year-olds — was a living antique. Mrs. Miller was literally "old school." Her methods and demeanour dated back to the way my parents had been taught when schools were run like a cross between a juvenile detention facility and the army.

My mother recalls how when she was a student kids would march in formation, to the rhythm of a hand bell, from the school yard to the auditorium for the morning singing of *God Save the King*. Teachers born in the previous century called out orders to their students, having them perform basic tasks as drills. "Open desk. Remove books. Close desk."

My first school in Montreal's Notre Dame de Grâce district was the height of 1970s experimentalism. Rosedale Elementary had no walls and kids were free to absent themselves from a class if the spirit moved them. The concept didn't match the inclinations of the older teachers, including Miss Knee, who had a habit of hammering math skills into children's heads with a pencil, and Mrs. Gordon whose idea of extracurricular storytelling was reading to us from the Bible. Both of them would be before a Human Rights Tribunal if they were still teaching today.

But there were enough Gloria Steinem-inspired freethinking women and long-haired post-'60s hipster men who wanted to be our friends to make Rosedale a lab for feel-good, free-thinking learning.

I wanted nothing of it. I must have been the only seven-year-old who wanted less huggy self-esteem boosting and more structure. I moved on to another school before finding my bliss at Willingdon. Run by a principal who — it was whispered — had fought in the Lithuanian resistance, Willingdon was an ordered universe, and Mrs. Miller presided like Cerberus over its exit to the next level of higher learning. She didn't want to be our friend. She didn't dispense hugs. I don't even remember her smiling.

> Mrs. Miller marshalled her lessons with atomic precision

Mrs. Miller marshalled her lessons with atomic precision. She taught from a lectern. She was rumoured to have a glass eye and, in the only incident of disobedience I remember, it was established that it might be the left one owing to the fact that someone threw a pencil eraser and she never saw it coming.

She would meet us at the door in the morning to march us into class. At the end of the day we were marched down the stairs where she would wait for absolute silence before saying, "Good afternoon, class," to which we would respond in unison, "Good afternoon, Mrs. Miller," before being dismissed.

Mrs. Miller insisted on perfect penmanship, math done in ink and exercises involving poetry memorization. She didn't teach art, and if there were a few minutes at the end of the day we didn't play games, we read in silence.

Mrs. Miller gave her students discipline, manners and an understanding that sometimes you aren't the most special or important person in the room. She marked in red and expressed disapproval. We pretended to hate her, and while I don't think any of us could be said to have loved her, we knew we were lucky to have spent a year under her instruction.

Following publication of my column, I was contacted by some of Mrs. Miller's former students, including one who had become a teacher herself. She wrote that she thought Mrs. Miller had retired to Lethbridge, Alta. I Googled Mrs. Miller — using the never uttered first name Kathleen — and scored a hit. Mrs. Miller died on Feb. 10 of this year. The woman who seemed to have been born 100 years ago was in fact born in 1914. She missed seeing a column about her, written by a kid she taught to respect writing, by three months.

Without getting mawkish, here's a tip: If a teacher ever made a difference in your life, tell them. So to Miss Parks, Miss Kilpatrick, Merle Lewis, Donna George, Graham Decarie, Don Tadeo, Margie Mendell and Mrs. Miller: thank you.

National Post
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▮ John Moore is host of the drive home show on NewsTalk 1010 CFRB Toronto. Outside of Southern Ontario he can be heard at www.cfrb.com

BOOK EXCERPT

In a new book, Jeff Rubin argues that more expensive and less plentiful oil will spell the end of globalization

Small new world

JEFF RUBIN

I have good news and bad news for you. First the bad news.

With global oil supply dwindling and demand rising, you can expect scarcity. And scarcity means high prices. You can expect triple-digit oil prices in the near future. Yes, the price at the pump is going to go up. Count on it. In the United States, that should translate into as much as $7 per gallon of gasoline, and about $2 per litre in Canada. Europe is of course already paying those prices, so they should get ready for the equivalent of double-digit gas prices. But it will also hurt in a lot of ways you may not be thinking about.

Life as we've known it is up for grabs in a world of expensive fossil fuels. Expensive oil means a severe curb on the free-spending lifestyle that cheap energy has afforded us for some time now. It means you can say a long and wistful goodbye to the inexpensive products manufactured on the other side of the world. You may not love them, but they have been stretching our dollars for a while now and holding down inflation at the same time. You'll miss them when it starts to become clear that your paycheque just doesn't go as far as it used to.

Your food in particular is going to cost a lot more — in fact, it is already getting more expensive all the time. The stuff you burn in your car is the same thing the farmer in Iowa needs to plant and harvest his corn (to say nothing of the natural gas needed to manufacture his fertilizer). It's the same stuff that powers all the trucks and planes and ships that move everything around, the same stuff that is used as a feedstock for the petrochemical industry that produces our plastics and pharmaceuticals. It's what the navy uses to fuel its ships, and what the local government needs to run its lawnmowers to keep the parks looking groomed. Someone is going to have to pay for all of this, and less oil means less money. Some difficult choices lie ahead.

Now the good news.

Expensive oil may mean the end of life as we know it, but maybe that life wasn't particularly great to start with. Smog-congested cities, global warming, oil slicks and other forms of environmental degradation are all part of the legacy of cheap oil. If you want a hint of what the future will look like if oil-guzzling members of the OECD get it right, just look at Europe today. There, drivers are already paying the equivalent of $2 for a litre of gasoline, and in France and Germany life goes on.

> *Expensive oil may mean the end of life as we know it. But maybe that life wasn't so great to start with*

European gasoline prices give a hint of what is down the road for North Americans, and it is not all doom and gloom. Sure, we will be facing higher prices (if you've ever bought a pint of beer in Frankfurt or a latte in London, you know just how much higher European prices can be than what North Americans pay). We will be living in denser communities, driving smaller cars, living more frugally and locally. When we travel, we may soon be boarding an electric-powered train rather than an oil-powered airplane. And with global climate change also bearing down on our energy consumption, we may soon be paying more attention to the cost not only of buying carbon-based fuel, but of burning it too, just as the Europeans are already doing.

But living in a clean, efficient, densely populated city is not exactly the end of the world. Where would you rather spend your vacation: Paris or Houston?

And while there are certainly going to be losers as the 18-wheeler of globalization is thrown into reverse, there are going to be winners too. In a world of triple-digit oil prices, distance suddenly costs money and lots of it. Many of those once high-paying manufacturing jobs that we thought we had lost forever to cheap labour markets overseas may be soon coming back home. With every dollar increase in the price of the bunker fuel that powers the container ships that ply the Pacific, China's wage advantage becomes less and less important and Western workers once again become competitive. Who would have dreamt that triple-digit oil prices would breathe new life into America's Rust Belt or the British steel industry?

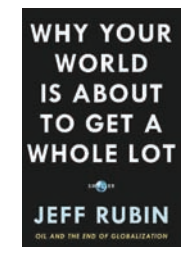
Get ready for a smaller world. Soon, your food is going to come from a field much closer to home, and the things you buy will probably come from a factory down the road rather than one on the other side of the world. You will almost certainly drive less and walk more, and that means you will be shopping and working closer to home. Your neighbours and your neighbourhood are about to get a lot more important in the smaller world of the none-too-distant future.

Here's the question: Will we decide to reinvest in a global economy and an infrastructure that keeps us bound to oil consumption for every dollar or pound or yen of wealth we produce? If so, we are committing ourselves to a damaging cycle of recessions and recoveries that keeps repeating itself as the economy keeps banging its head on oil prices. If we go this route, peak oil will soon lead to peak GDP.

Or we can change. Not only must we decouple our economy from oil but we must reengineer our lives to adapt to a world of growing energy scarcity. And that means learning to live using less energy. While much could go terribly wrong in this transition, don't be surprised if we find more than a few silver linings in the process, like a solution to carbon emissions, for example. And don't be surprised if the new smaller world that emerges isn't a lot more livable and enjoyable than the one we are about to leave behind.

Either way, your world is about to get a lot smaller.

▮ Excerpted from *Why Your World Is About to Get a Whole Lot Smaller* by Jeff Rubin.



TOMORROW

SPEAKING VOLUMES

The National Post's new non-fiction book club discusses Rubin's latest

US REVIEWS

Why Your World is About to Get A Whole Lot Smaller

Oil and the End of Globalization

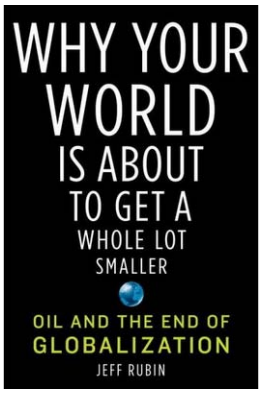
By Jeff Rubin

Book Review:

Why Your World Is About to Get a Whole Lot Smaller

Posted by EcoFriendly
May 25

Book Review: Why Your World Is About to Get a Whole Lot Smaller



Jeff Rubin - the former chief economist at CIBC World Markets - has always struck me as someone who "gets it." I have seen him do a number of interviews, both on television and in print - and he consistently sounds the alarm on peak oil. He understands very well that cheap oil is the lifeblood of the global economy, yet this is an era that will soon come to an end. His new book - Why Your World Is About to Get a Whole Lot Smaller: Oil and the End of Globalization - goes through the peak oil story in a way that I initially thought of as "Kunstleresque", but I changed my mind as I got deeper into the book.

Some will certainly describe Rubin as a 'doomer.' However, by the end of the book I had concluded that there are some significant distinctions between the overall message that Rubin is trying to convey and the message Jim Kunstler conveys in The Long Emergency. Maybe it's because The Long Emergency really slapped me out of complacency, but I recall being mildly shocked after reading Kunstler. I did not experience that same sense of shock while reading Rubin - but those who are only mildly familiar with peak oil may be.

Rubin covers many familiar themes, such as the domestic cannibalization of exports by energy producers, the need to produce and consume more goods locally, corn ethanol (which he describes as a 'head fake'), and the overall impact of high oil prices on the global economy. For regular readers, you will find that much of the book is familiar territory, and for a while I was thinking "There is nothing here that I haven't seen before." But the book ultimately grew on me, partly because there are two themes that distinguish it from other books I have read about peak oil.

The first involves a discussion of carbon dioxide emissions. In a chapter called "The Other Problem with Fossil Fuels", Rubin started to make a argument that I have often made: Ultimately it is futile to attempt to regulate carbon emissions, because China is literally bringing several coal-fired power plants online every week. Rubin wrote that between now and 2012, over 500 new coal-fired plants are scheduled to come online. This was the theme of my essay Why We Will Never Address Global Warming. My belief has been that there really isn't much that will convince China and other developing countries to cut back on their emissions. While I still think carbon dioxide emissions will continue to rise until we simply run

out of fossil fuels, Rubin provided an interesting argument that caused me to think that a different approach *might* work.

Rubin argues that if we put a price on carbon emissions in the U.S., Canada, Europe, and other developed countries - we can apply a carbon tariff on imports to level the playing field. Rubin states that energy usage per GDP in China is four times that of the U.S. economy. By putting a carbon tariff on Chinese steel, for instance, two things are accomplished. First, the Chinese then have a much greater incentive to become more efficient. Second, domestic energy intensive industries (like steel production) suddenly become much more competitive. The flip-side of course is that it makes energy-intensive products more expensive.

The second theme that distinguishes Rubin's book is that it is ultimately a hopeful book. About half way through the book, you won't have that impression. Sometimes when I read books on peak oil, the message is essentially "Abandon all hope; all exits are closed." I was 116 pages into the book and still thinking that this was standard peak oil fare. But then it started to become apparent that although Rubin sees and understands that this is a very serious and unprecedented challenge, he sees a world emerging with some distinct advantages. He also expects that there will be some technical breakthroughs that we simply can't anticipate that will likely make our landing into this unfamiliar territory bumpy, but survivable.

Make no mistake, Rubin's overall message will be sobering to the uninformed. The world Rubin foresees will contain less convenience than today's world. Gone are fresh fruits and vegetables out of season, cheap Brazilian coffee, and New Zealand mutton. Replacing them will be more expensive, but more locally produced goods. There will be new opportunities and benefits in this changing world. Because of that, I think this book will be important for scaring people into action without causing them to simply abandon hope.

Conclusion

A couple of years ago, I took a road trip from Montana to Texas (described in My Last Long-Distance Car Trip). In that essay - described by some readers as gloomy - I mused about a world in transition. In the concluding chapter of his book, Rubin does the same. He is on a fishing trip in Canada, and he discusses what higher oil prices will mean for 1). The ability of people to fly to remote locations for holidays; 2). The impact on those who depend on those tourist dollars; 3). The future of entire populations in remote areas (much like I did when I drove through Wyoming). While fishing trips to Canada aren't something most of us can relate to, we can certainly all relate to the idea that expensive energy is going to fundamentally change our lives - and that is the message he conveys.

The last chapter is a melancholy chapter in which Rubin sees an era coming to an end - with huge global implications. He admits that he doesn't know how this is going to play out, but he thinks that our world is once again going to become a whole lot smaller. And that's not all bad.

May 25, 2009

Books

Economist: Pricier Oil Means Less Globalization

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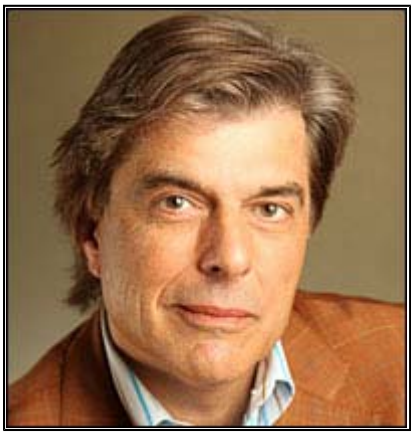


Greg Tjepkema

In his new book, economist Jeff Rubin says as oil prices go up, and stay up, it will mean a restructuring of our economy and lifestyles.

Read an excerpt of *Why Your World Is About to Get a Whole Lot Smaller*.

Morning Edition, May 25, 2009 · Just last summer, oil was surging toward $150 a barrel and gas prices were hitting $4 a gallon. The recession brought those prices crashing down, and today it may seem like high oil prices are one of the few economic problems that we don't have to worry about.

But Canadian economist Jeff Rubin says what we saw last summer was a glimpse of our future.

In his new book, *Why Your World Is About to Get a Whole Lot Smaller*, Rubin contends that oil, which is currently around $60 a barrel, will quickly top $100 a barrel when the world economy rebounds.

"We're going to see triple-digit oil prices very early in the next recovery," Rubin tells NPR's Steve Inskeep. Furthermore, he says, we should expect oil to stay at those levels because demand will consistently outstrip supply in the coming years.

Rubin argues that high oil prices will have sweeping ramifications and will reverse many of the trends we've seen in recent years in the world economy.

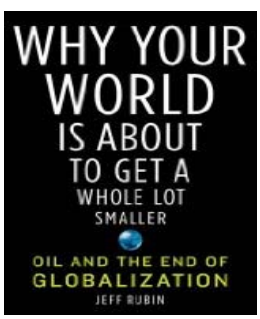
"The model of globalization is not going to be economically viable," Rubin says. "What we're going to find is it's not going to make sense to produce things on the other side of the world, no matter how cheap labor costs are there, when it's so expensive to transport things."

Rubin says the United States is likely to import less from low-wage countries like China and make more things at home, from steel to furniture to food. He predicts that the continued expansion of the suburbs ringing American cities will come to an end, as families move back to cities in the face of much higher commuting costs.

But critics note that the United States has bounced strongly from past oil shocks, and new technologies hold out the possibility of lessening dependence on oil.

High oil prices are a virtual certainty, according to Rubin, but he acknowledges that the U.S. economy can adapt. "I think there are a lot of silver linings to this," he says. "I think that in many respects, the new smaller world around the corner will be a more enjoyable world to live in."

Are we entering an age of reverse-globalization?



The International Energy Agency is getting a bit worried. It sees that low oil prices — or at least low compared to last summer — have led to under-investment in energy infrastructure, particularly exploration of oil and gas. It also knows that when the economy shifts into recovery mode demand will pick up fast and supply will be slow to respond. It predicts there will be a supply crunch by 2012, and of course that means oil prices will be rocketing back up.

This scenario, of course, may be understating the problem about to hit world economies, says former CIBC chief economist Jeff Rubin, whose new book *Why Your World Is Going to Get a Whole Lot Smaller* hit the market today. I've got a feature book review here, but in a nutshell Rubin believes conventional oil production has already peaked and unconventional production won't be able to keep up with demand once global economies recover, and not just because of the incredible appetite the Chinese have for oil. Rubin argues that excessive consumption in the Middle East, massive local subsidies there for oil, and the use of oil-fired power plants to run energy-intensive desalination facilities will shrink the amount of oil supply that OPEC puts on the world market. Ultracheap cars to appear in India and likely to spread around the world, thanks to Tata Motors, will mean even more demand for oil products.

Oil prices are destined to once against skyrocket into triple-digit territory, and the impact will be inflation on everything, including our food and the fuel we use to drive our cars and heat/power our homes. In fact, gas prices will become so high that people will be forced to ditch their cars, housing prices in the suburbs will plunge, urban areas will grow more dense, and there will be a renaissance in local agriculture and urban farmers' markets. The high cost of transporting goods from far-off markets will lead to the re-emergence of domestic manufacturing. High oil will override any labour-cost benefits that countries such as China can offer.

What Rubin is describing is essentially a deathblow to globalization and a return to regional economic trade, similar to what world trading patterns were like in the 1970s. And he's not describing what the world will look like in 20, or even 10 years. I had a chance to meet Rubin for a quick coffee last week and he told me we'll begin seeing the pattern emerge within the next 18 months, and that smart businesses and people should begin to adjust their lifestyle now if they hope to minimize the pain and discomfort of adapting to a new world. I told him I'm loving the fact I have a variable interest rate mortgage and am paying 1.35 per cent interest right now. His response: lock in now, cause it will be short-lived. It really got me thinking about my own situation.

Will we all be caught off guard by what's to come if Rubin is right?

What's interesting about Rubin is that he left a well-respected, high-paying job after 20 years at a major Canadian bank to focus exclusively on delivering the above message. And he's not alone in trying to paint a picture of the smaller world to come. Christopher Steiner, a senior staff reporter at *Forbes* magazine, will be delivering a similar message when his new book, *$20 Per Gallon*, launches this July. Seems we've moved on from talk of reaching peak oil to discussion of how peak oil will impact us now that it's here.

Rubin isn't saying we're going to have to stop using oil or that we're going to run out. What he's saying is that it's going to

become so expensive that it will cause inflation everywhere and will force many people, many businesses, to seek alternatives or simply get by with using less. With the exception of using less (i.e. conservation), all other options will be expensive. The oil companies don't care, of course, because they'll get top dollar for the barrels they do sell. The rest of us, we'll just be screwed.

If you do get your hands on Rubin's book I urge you to read Chapter 7 — "Just How Big Is Cleveland — in which he provides an excellent explanation of how high oil prices last summer caused the recession we are in right now. Rubin says high oil led to inflation, which equals higher interest rates, which caused many U.S. homeowners to default on their mortgages when they came up for renewal. When that started to happen the dominos began to fall and this exposed the underbelly of the mortgage-back securites fiasco that led to the crisis on Wall Street. High oil prices knocked down the house of cards that Wall Street had built over the years.

During my meeting with Rubin, I brought up the topic of carbon tariffs. A couple of weeks ago I asked British economist Lord Nicholas Stern about using carbon tariffs to put countries like China on the same footing with North America once we place a cap/value on carbon. Stern warned against tariffs and said they should only be used as a last resort, after all attempts to negotiate agreements and industry standards have been exhausted. Stern said the tendancy will be to use carbon tariffs to carry forth protectionist agendas, which would be a dangerous mistake. Rubin dismissed Stern completely. He said carbon tariffs are absolutely necessary and are the *first* thing countries like Canada and the United States should put in place if they're going to impose carbon caps on their own industry. He said Stern is living in a fantasy land if he thinks we have to time to negotiate international agreements. We have no time, he said, adding that it's time to start playing hardball with countries like China.

Gotta agree with him on that one. I thought Stern was being too much of an idealists in response to that question.