



23rd REFORM Group Meeting

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THE GEOPOLITICS OF TOO MUCH OIL

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Research motto:

Prefer to speak true words receiving blame,
above deceiving advice in soliciting praise.

Based on:

Verbruggen, A., Van de Graaf, T. (2013). Peak oil supply or oil not for sale? *Futures* 53, 74-85



Overview

- 'Peak' oil supplies **deception**
- ⇔ **Facts** of climate change
=> Necessity of oil (fossil fuel) demand peak
- Friendly ⇔ Hostile oil sources
 - Split world
 - Middle East as central battle ground
- Optional: microeconomics slides [9-13]: World oil markets as cash cows by **rent skimming**
- To remind
- Who sets the high oil prices & cashes the rents?



'Peak' oil supplies deception

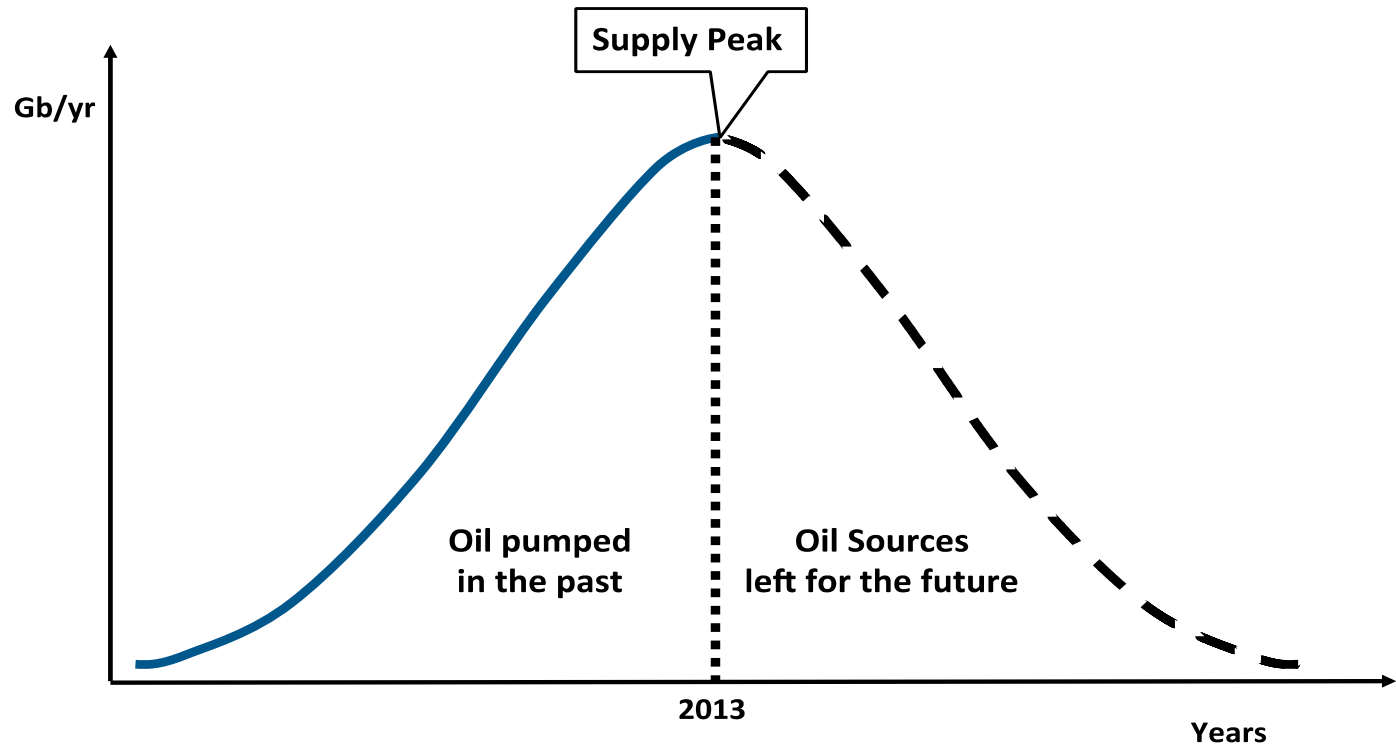
'Peak' oil supplies

= announced depletion of oil sources in the foreseeable future.

Ratio R/P (Reserves/Production) = 40 to 50 years of sufficiency

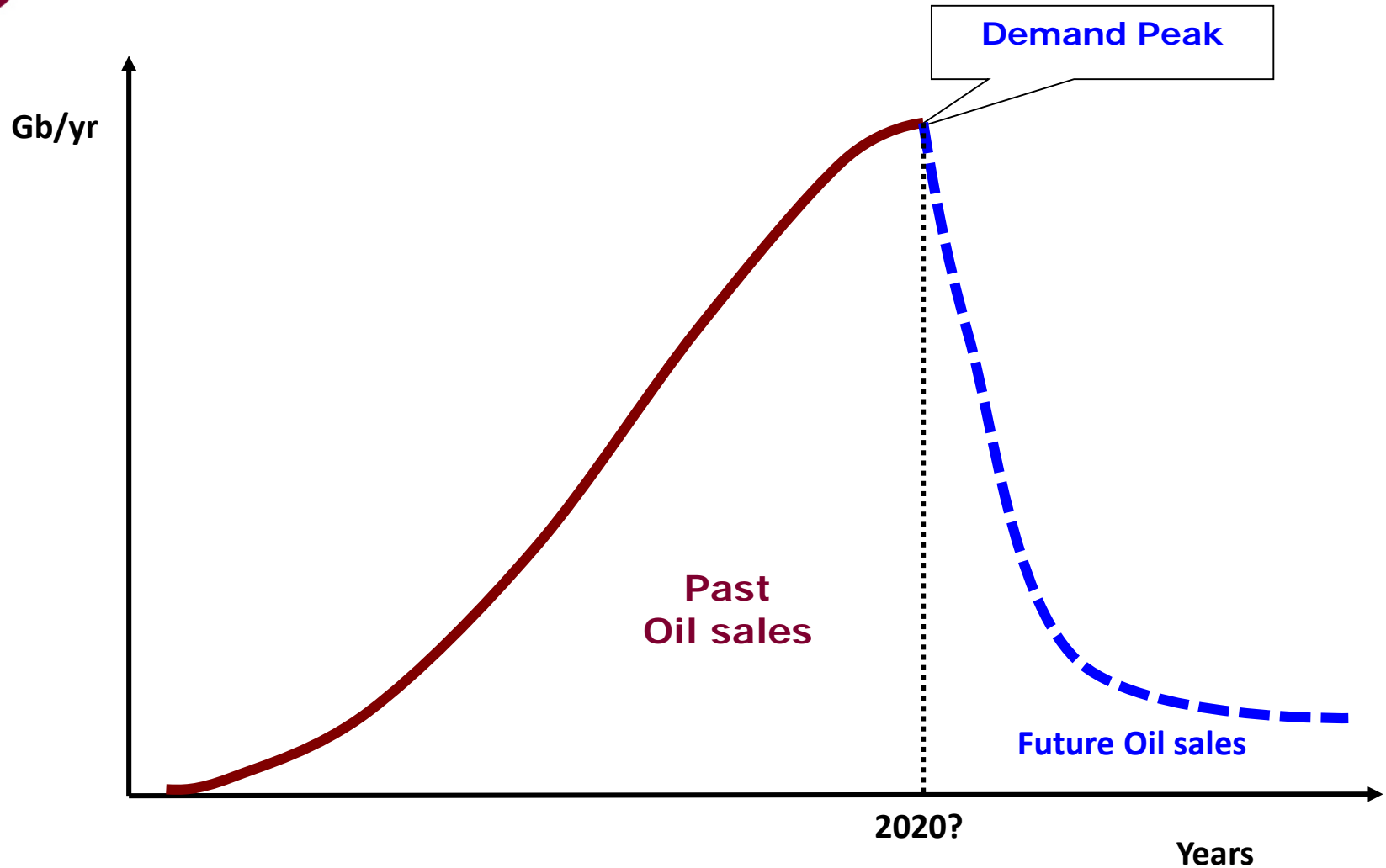
= **deceiving indicator of depletion / scarcity**

Hubbert bubble fiction





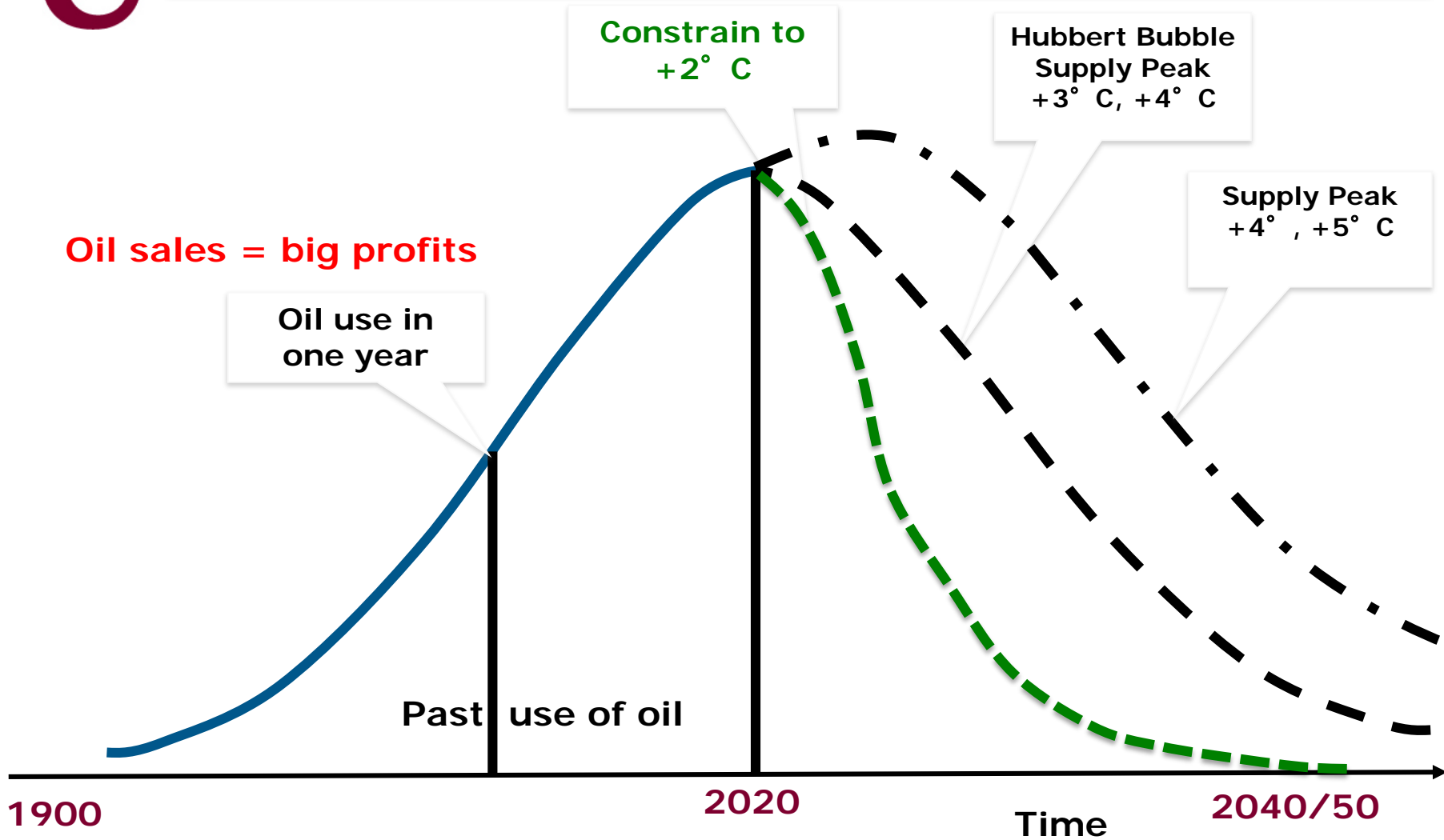
Climate Change mitigation implies Demand Peak must curtail future oil sales



Constrained oil use ⇔ Depletion of oil sources



⌘ global warming +2° C, +3° C, +4° C, +5° C, ...





Curtailing oil use = geopolitical conflicts

Embargo – Invasion – Civil War



U.S., EU Oil&Gas interests, GCC claim lion share in oil sales



Oil sources (owners)

friendly ↔ *hostile*

'friendly' and 'hostile' are relative terms, like left and right

- no value judgment about the sides

Friendly = Western capital interests: 'direct foreign investment is allowed and protected'.

Core: U.S. & NATO allies + Gulf Cooperation Council (Saudi Arabia, United Arab Emirates, Qatar, Bahrein)

Hostile = nationalistic focus; foreign capital obstructed, fenced.

Core: Iran, Venezuela, Ecuador, Sudan, Russia,...

Transient = drifting between friendly and hostile sides, voluntary or by (geo)political-military interference, e.g. Algeria, Angola, Iraq, Lybia, Nigeria, ...

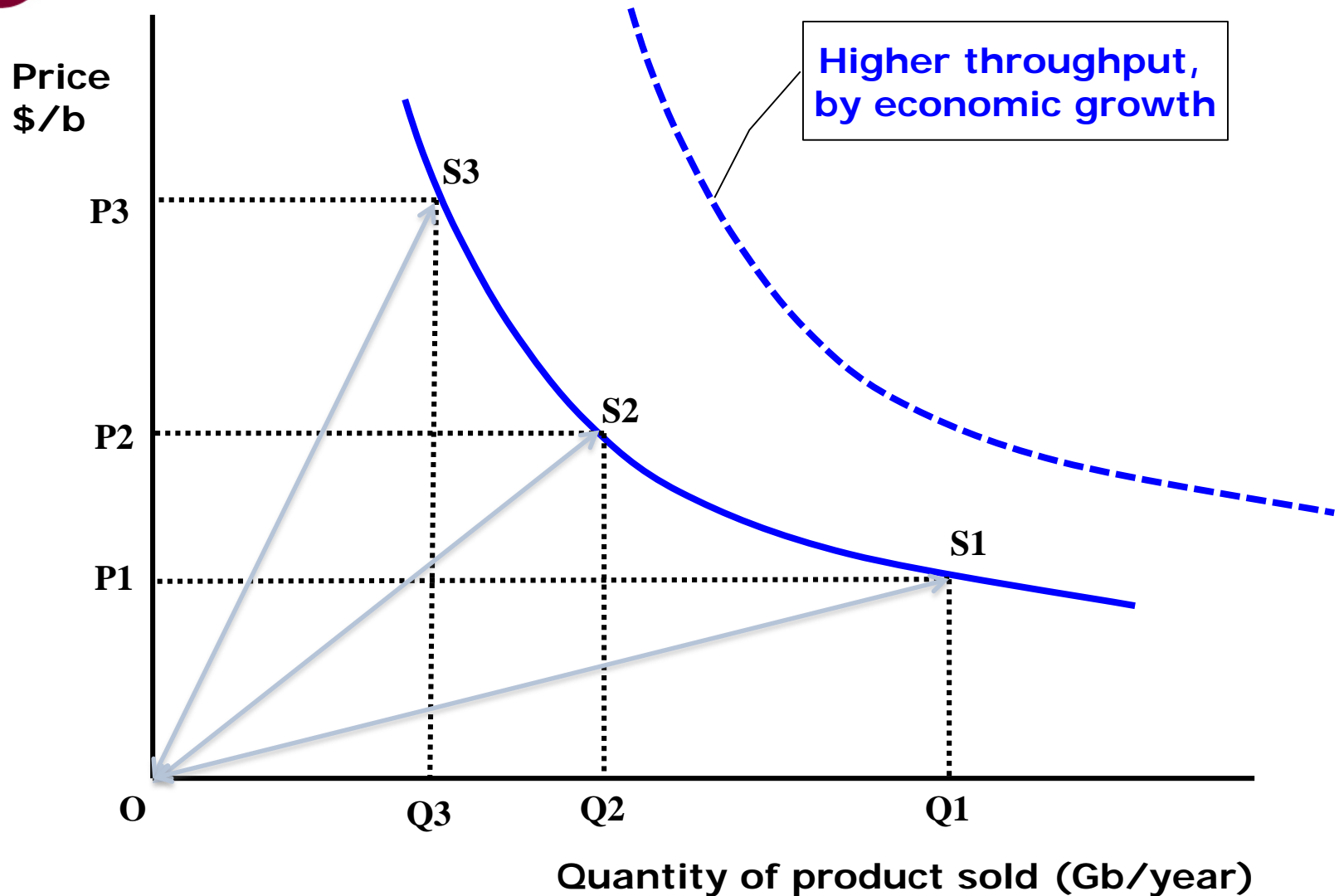


Geopolitics in times of oil surplus

- ❖ **Role of OPEC**
 - ❖ Cartel successful in 1970s period of growing oil demand with few immediate substitutes/alternatives
 - ❖ Saudi-Arabia: dominant and swing producer
- ❖ **Transverse perspective on oil geopolitics**
 - ❖ Most told: conflict and war for access to scarce oil
 - ❖ Our view: no wars to conquer oil, but to devastate or paralyze hostile and unreliable transient sources
- ❖ **Changing oil geopolitics in Middle East/Africa/Europe**
 - ❖ Iran, 2nd gas, 4th oil owner: stubborn hostile actor
 - ❖ Active role of GCC members in Iraq, Lybia, Syria, Yemen
 - ❖ Since 2013: more boycott of Russia, e.g. quell Nordstream 2
 - ⇔ imports of LNG from Western controlled wells + U.S. 'freedom gas'

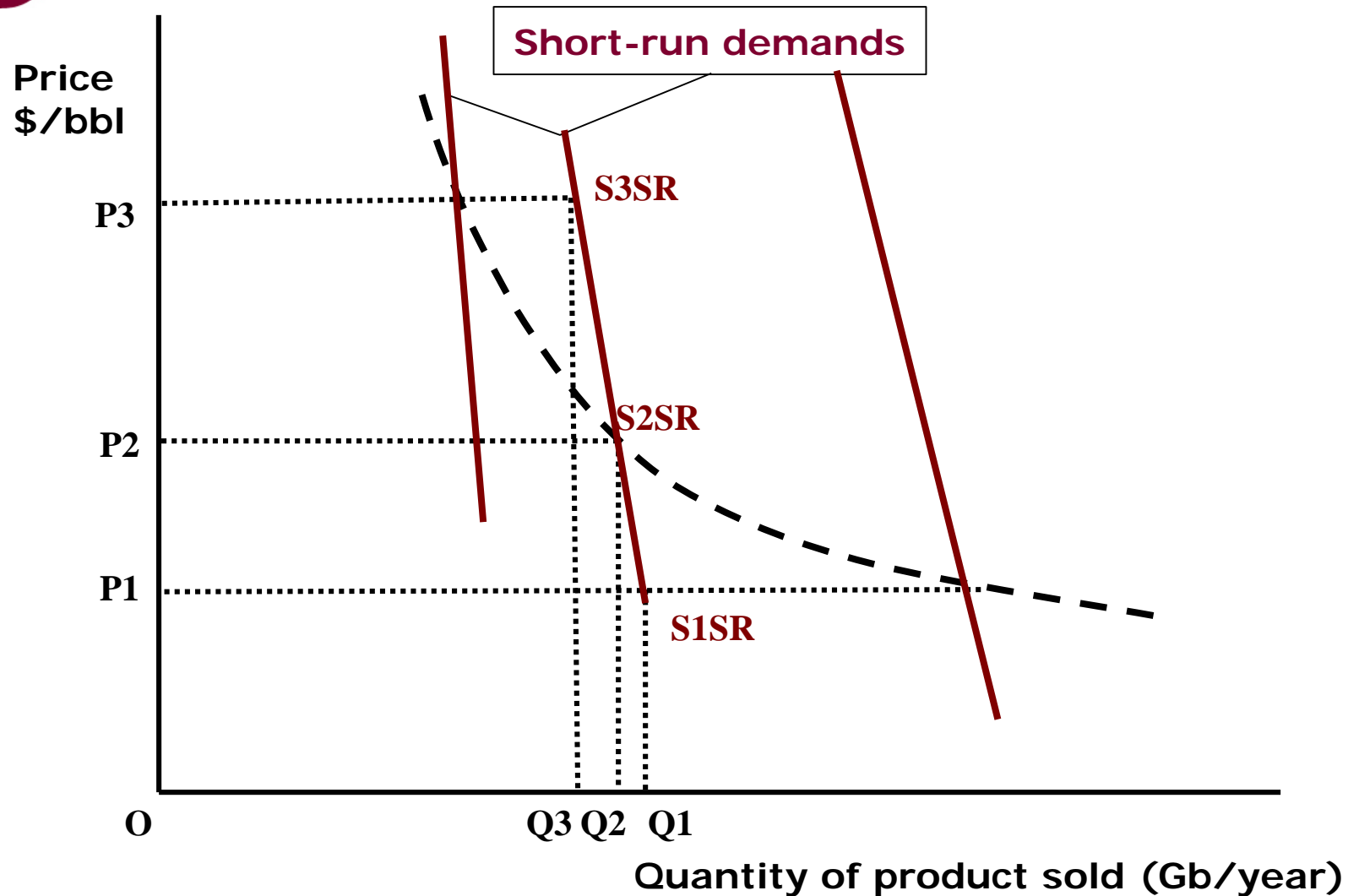


Long-run demand curve for oil: at price elasticity -1, price x quantity = bills remain constant



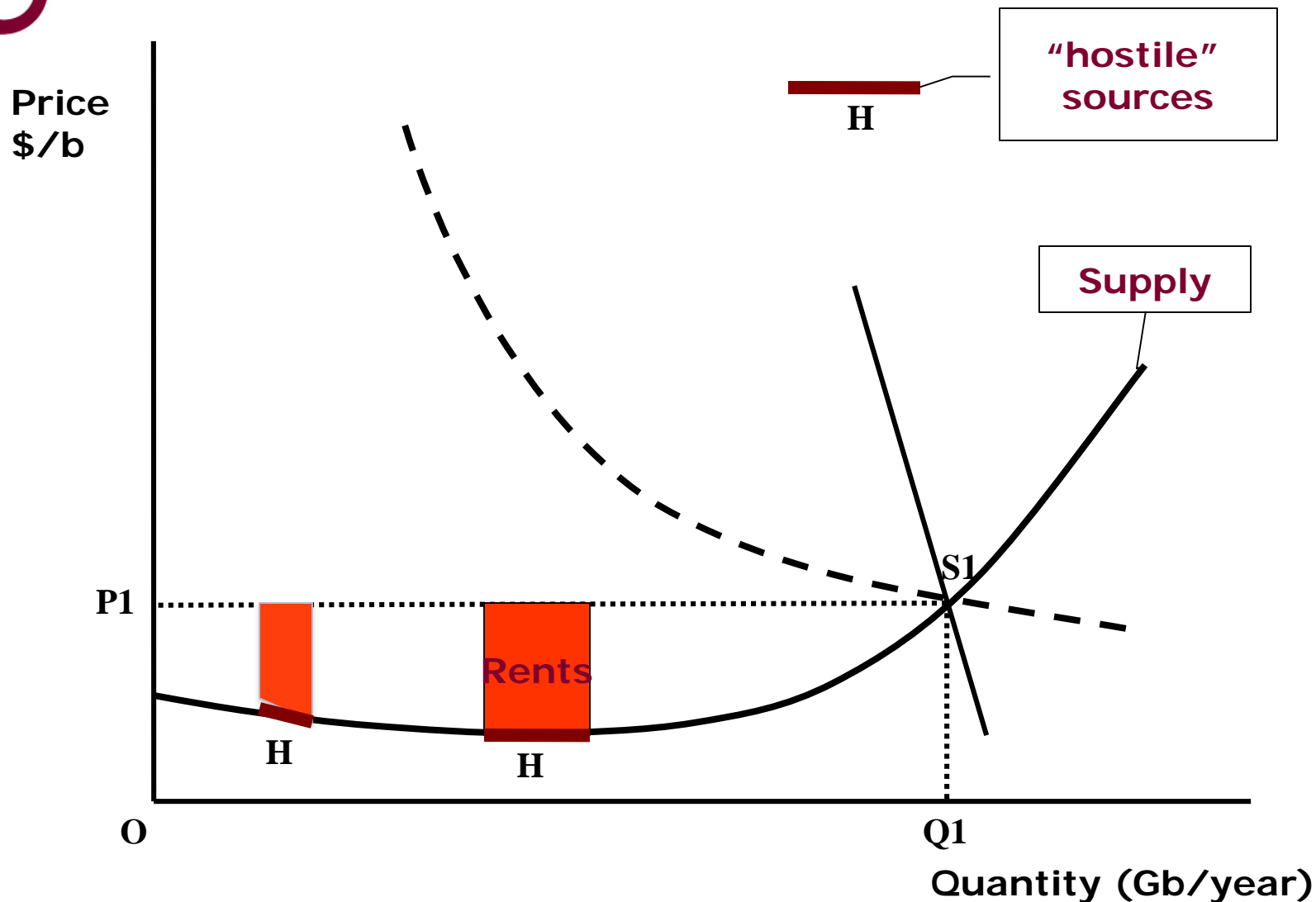


Short-run oil demand curves ($-1 < \text{elasticity} < 0$), attached to long-run demand pattern



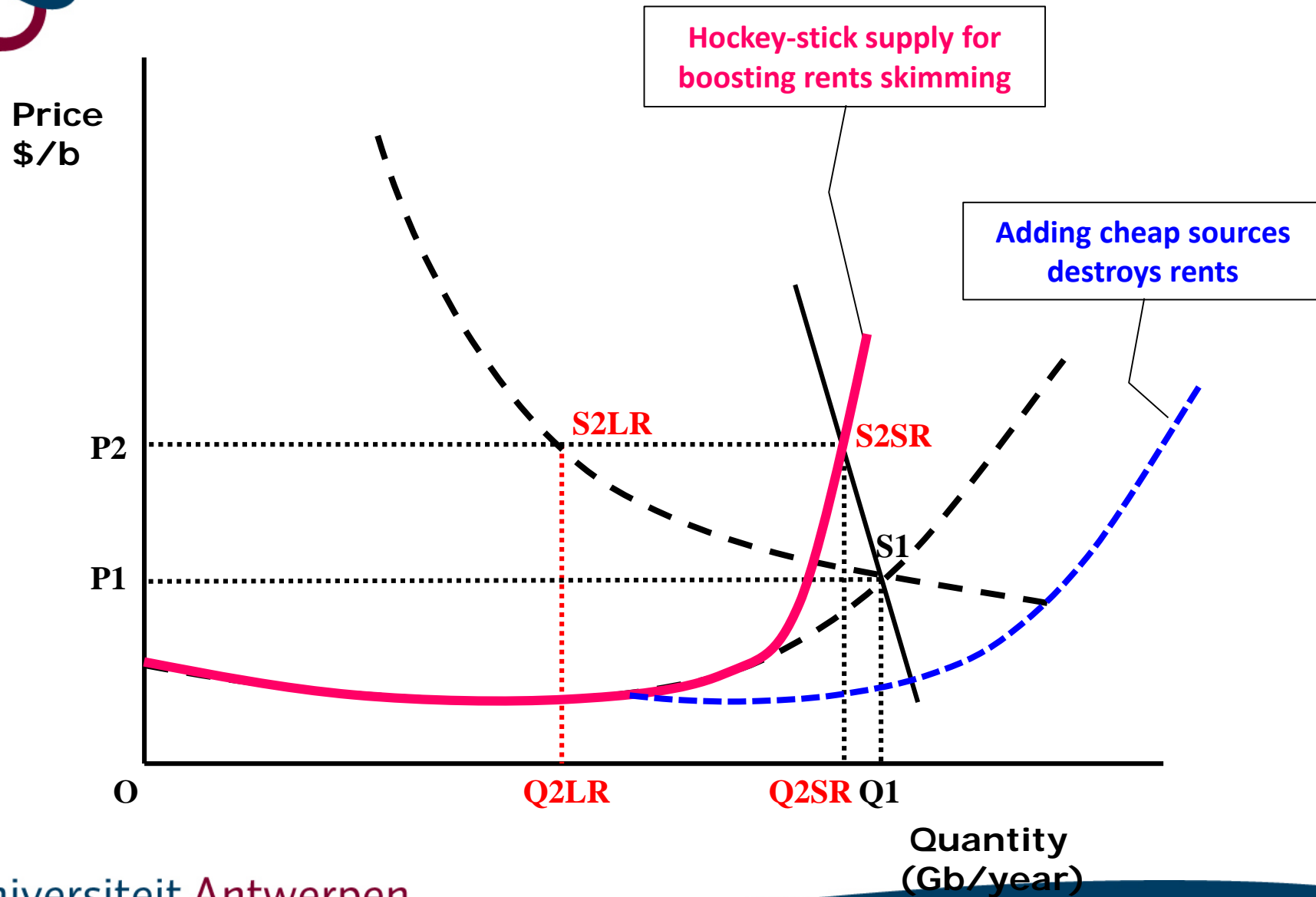


Static equilibrium in the world crude oil market



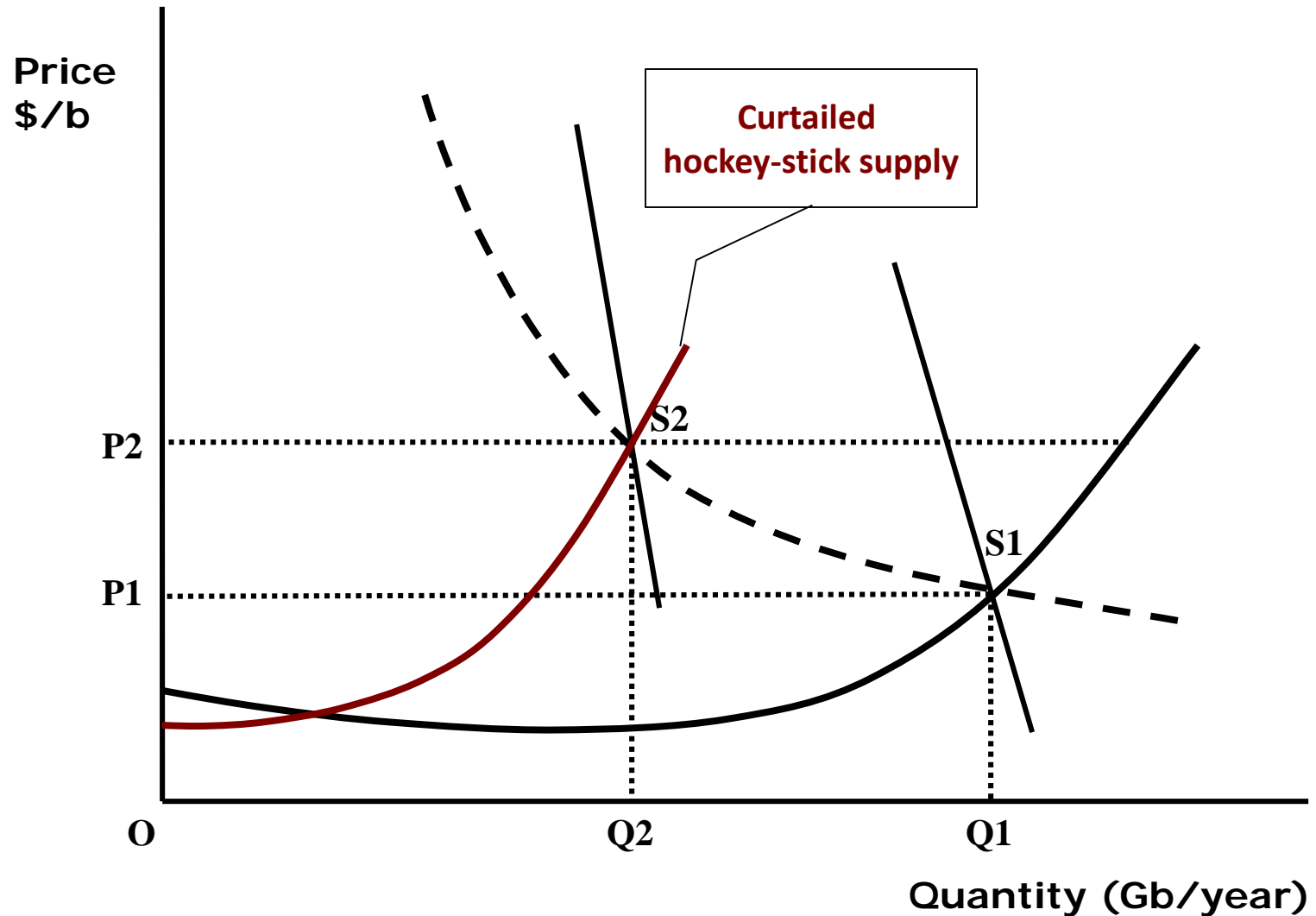


Acting on the oil supply curve in the short run





Curtailed hockey-stick curve of oil supply in the long run after eliminating hostile sources





To remind

- ❖ **Analysis based on world oil market functioning**
 - ❖ Demand by billions of consumers
 - ❖ Supply by oligopolistic oil majors + oil exporting countries
 - ❖ Rent creation & skimming
 - ❖ The bill is charged on global competitors (Far East, Japan, China, EU)

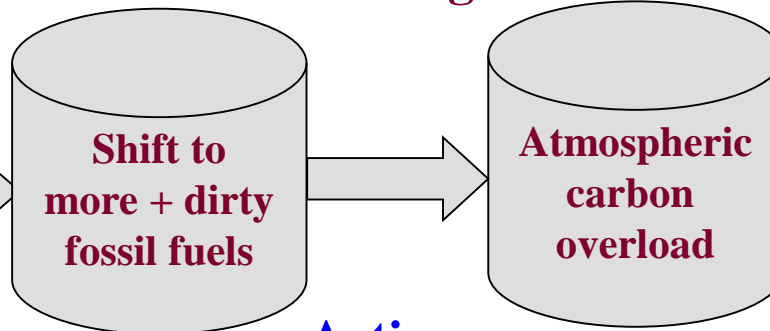
- ❖ **Brutal oil geopolitics**
 - ❖ Devastate & paralyze hostile + unreliable transients
 - ❖ This part of the energy transition: **“no walk in the park”**
 - ❖ **Beware of soft transition talk akin wishful thinking, avoiding facts**

- ❖ **Climate change & Peak oil**
 - ❖ **Mankind must manufacture irrevocable peak oil demand**
 - ❖ **Inducing & maintaining peak oil demand requires robust and permanent financial pressures to shrink oil-related activities**
 - ❖ **Who sets the proper levies, taxes, prices + cashes the billions \$ rents? Oil majors ⇔ Governments + across countries**



Corporate or Public carbon pricing?

Challenges



Actions

