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THE GEOPOLITICS OF TOO MUCH OIL

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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 slides [8-12]* : World oil markets as cash cows by **rent skimming**
- **Some lessons**



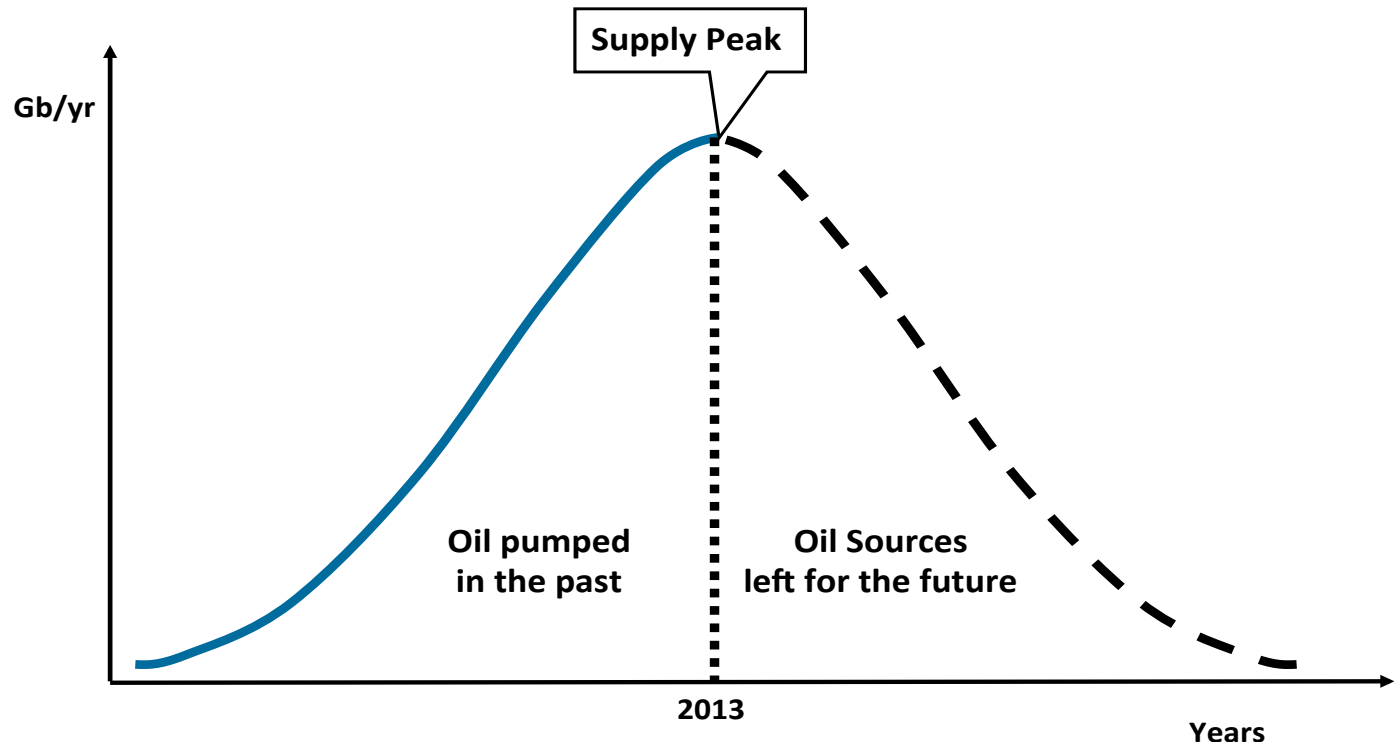
'Peak' oil supplies deception

'Peak' oil supplies

= announced depletion of oil sources in the foreseeable future

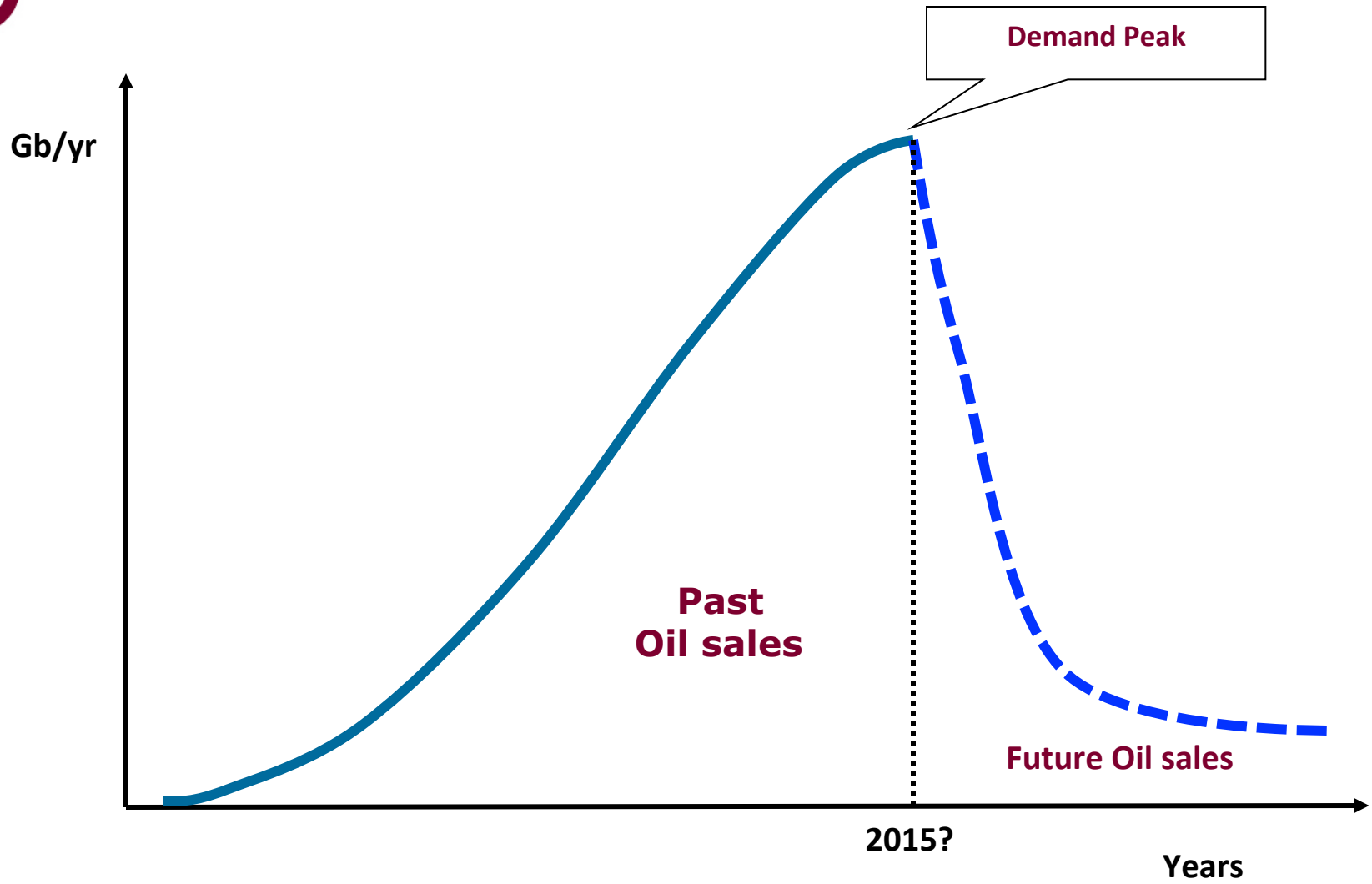
- Annual ratio R/P (Reserves/Production): (mostly) 40 to 50 years of sufficiency = **deceiving indicator of scarcity**

Hubbert bubble fiction



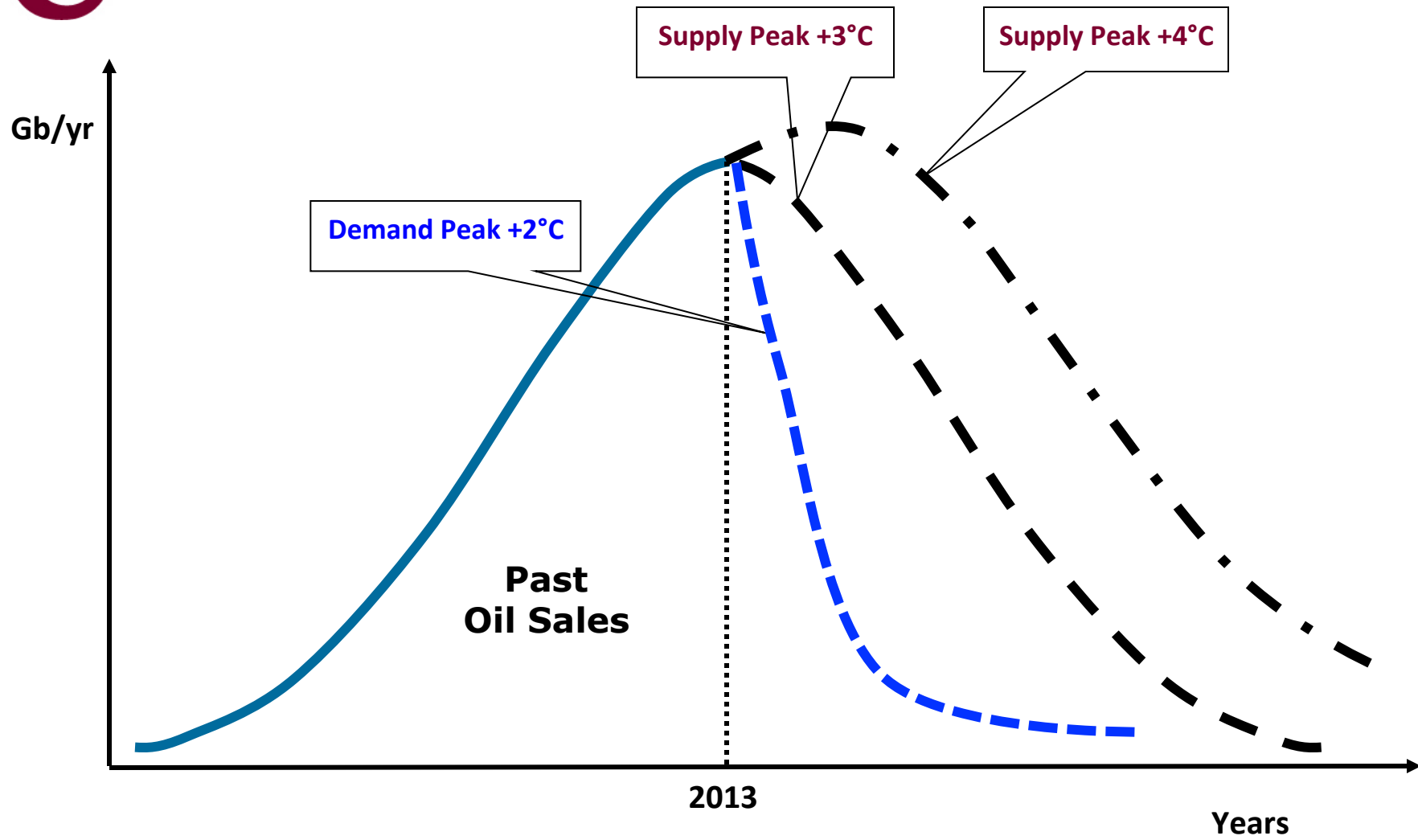


Climate Change: Demand Peak must curtail future oil sales





Three future oil use scenarios with assessed global temperature rises of +2°C, +3°C, and +4°C





Oil sources (owners): *friendly* ↔ *hostile*

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

core: U.S. & NATO allies, Gulf Cooperation Council

Hostile = nationalistic focus; foreign capital fenced

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

The terms 'friendly' and 'hostile' are relative, dependent on side positions • no value judgment about the sides

Transient = drifting between friendly and hostile sides, voluntary or by geopolitical interference, e.g. Algeria, Angola, Iraq, Lybia, Nigeria, ...



Geopolitics in times of oil surplus

1. Role of OPEC

Cartel successful in 1970s period of growing oil demand with few direct substitutes/alternatives

Saudi-Arabia: dominant & swing producer

2. Transverse perspective on oil geopolitics

Most told: conflict and war for access to scarce oil

Our view: no war to conquer oil, but to devastate or paralyze hostile and unreliable transient sources

3. Changing oil geopolitics in Middle East/Africa

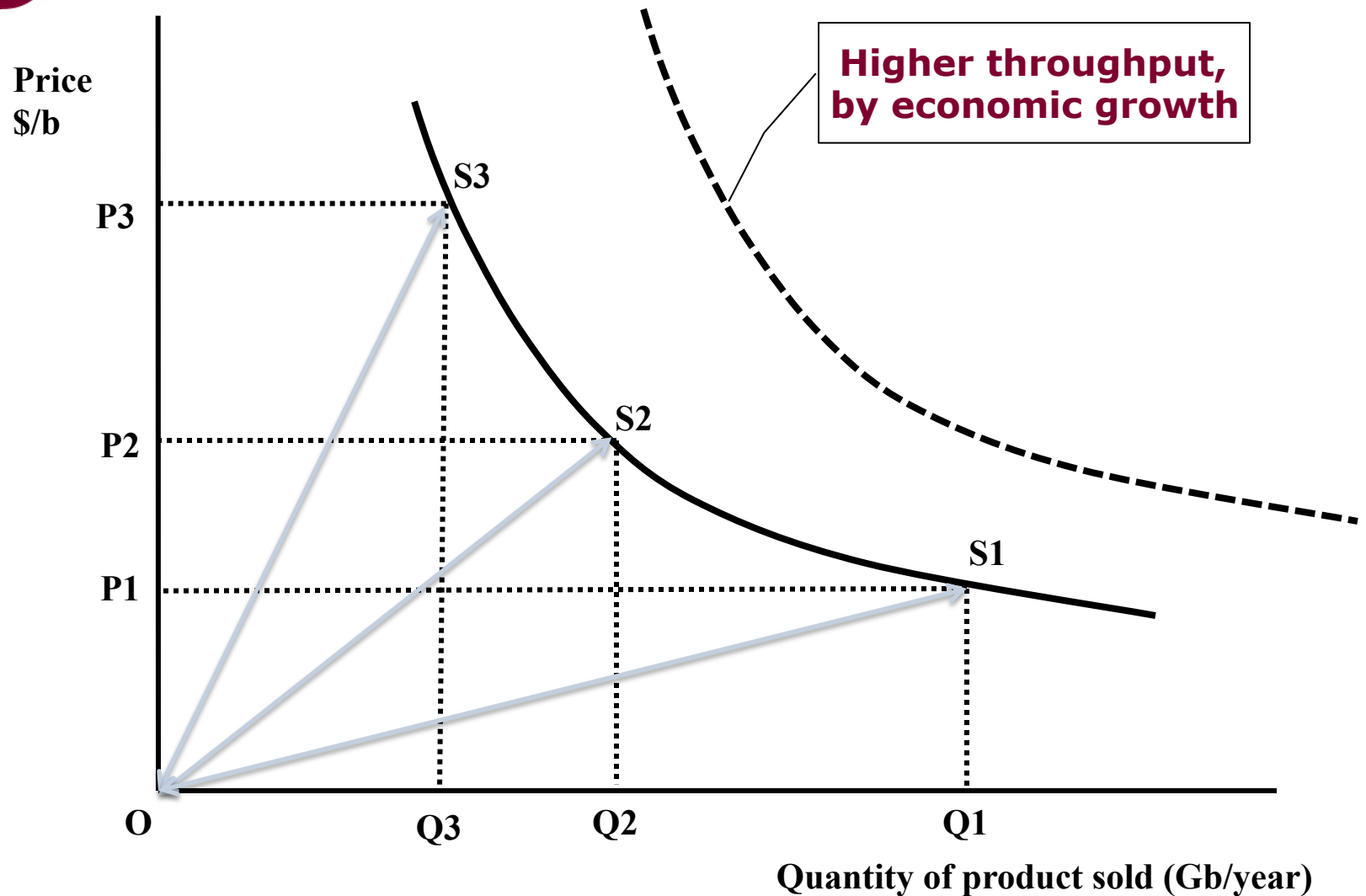
Iran, 2nd oil-gas owner: stubborn hostile actor

Active role of GCC members in Iraq, Lybia, Syria

New (2013): boycott of Russia (focus on gas)

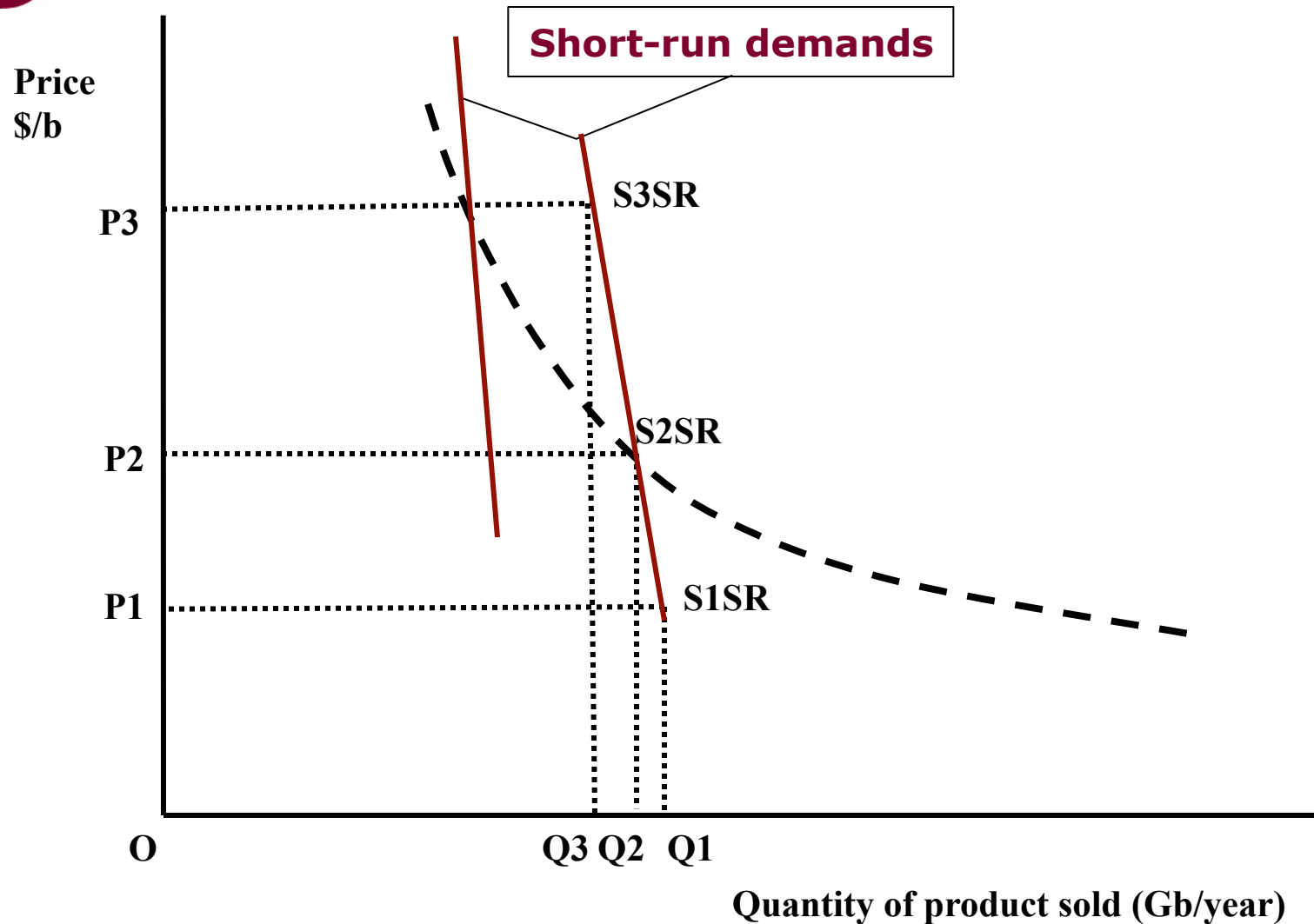


Long-run demand curve for oil: at price elasticity -1, price x quantity = bills constant



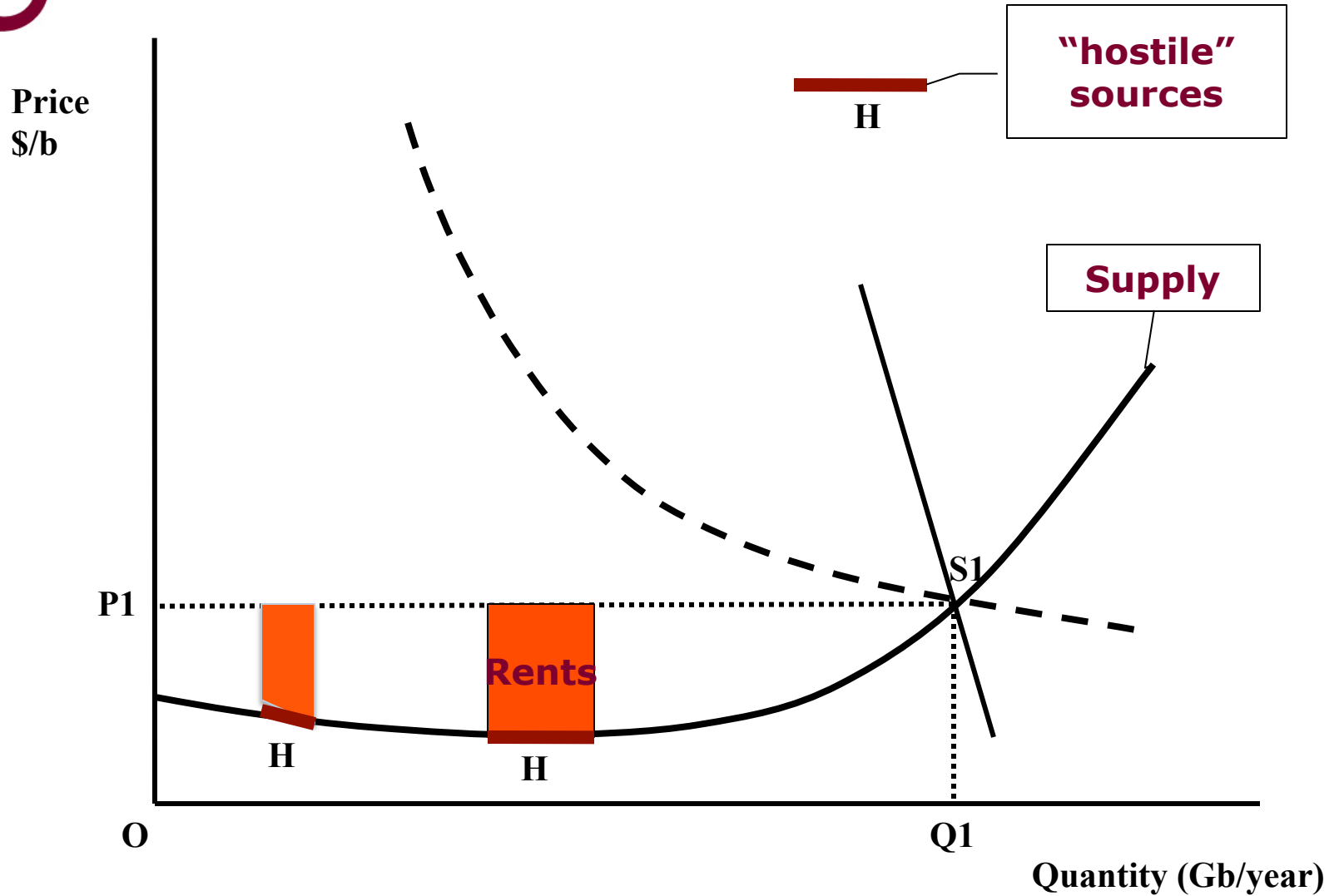


Short-run oil demand curves ($-1 < \text{elasticity} < 0$), attached to long-run demand pattern



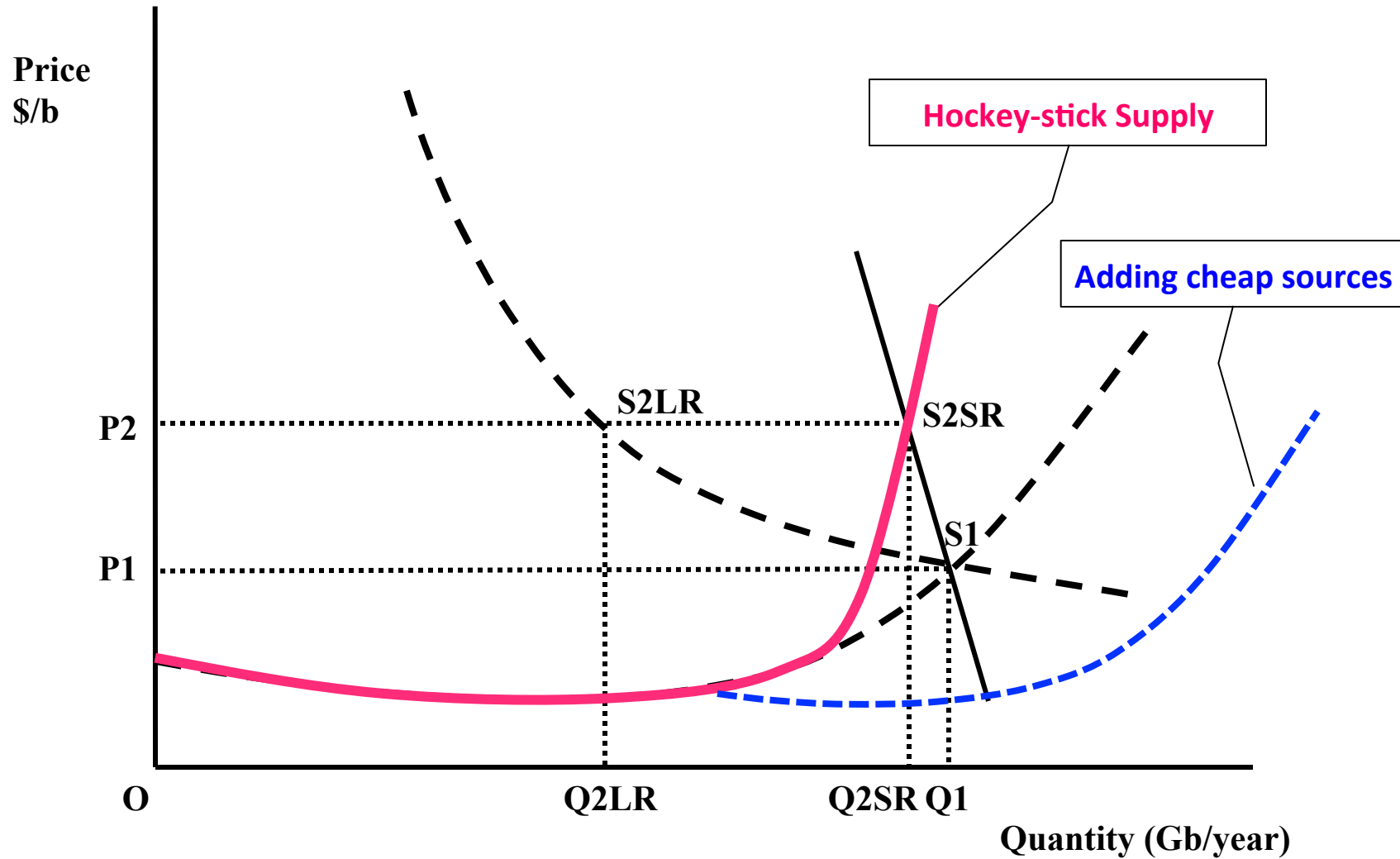


Static equilibrium in the oil market



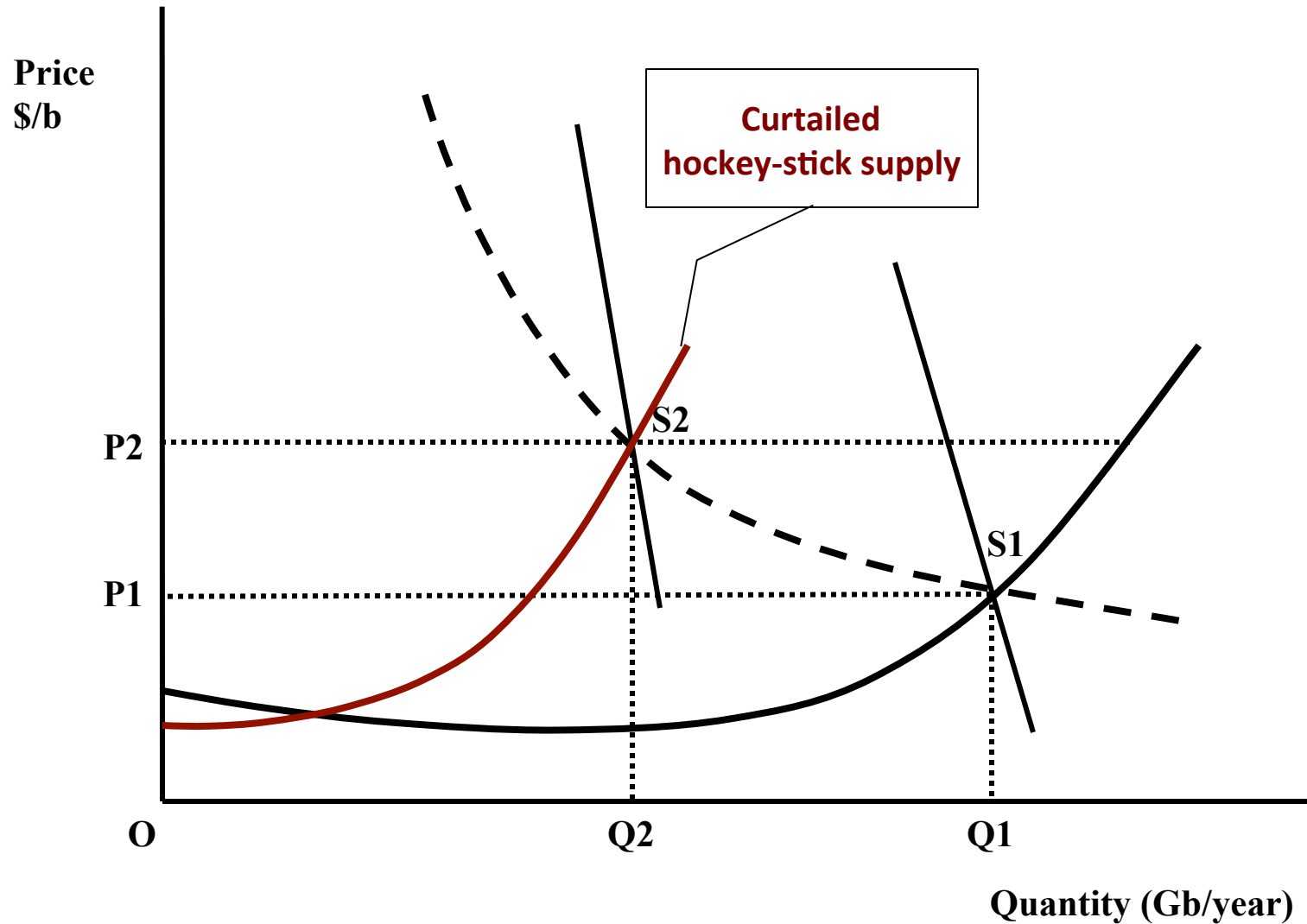


Hockey-stick curve of oil supply in the short run





Curtailed hockey-stick curve of oil supply in the long run





Some lessons

1. Climate change & Peak oil

**Mankind must manufacture irrevocable peak oil demand
Inducing & maintaining peak oil demand requires robust
and permanent pressures of high oil prices**

**Who sets the high prices + cashes the billions \$ rents?
Oil majors ↔ Governments + across countries**

2. Analysis based on world oil market functioning

Demand by billions of consumers

Supply by oligopolistic oil majors + oil exporting countries

Rent creation & skimming

Foot the bill to competitors

3. Brutal oil geopolitics

Devastate & paralyze hostile + unreliable transients

This part of the energy transition: “no walk in the park”