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The Oil Problem

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During the past year, the United States imported a total of about 6.6 million barrels of crude oil each day, at a price approaching \$110 per barrel. That outlay --annually a large share of a trillion dollars -- is a tax paid to the nations from which the oil comes -- including Russia, Venezuela, Saudi Arabia and Iran. These nations are not our best friends in the world, and accordingly offer some risks to our national security. But other nations are more vulnerable than we, because this economic reality is one we share with the oil importing nations in Asia, Africa, and Latin America -- regions that house some of the world's poorest people.

How did this improbable situation arise? In 2004, the US and the other importers were buying oil at around \$30 per barrel, but a sudden transition followed as the Arabian sweet crude sold by OPEC was beginning to run out. As oil demand rose, producers were forced to shift to what quickly became known as "extreme" oil: hard-to-get petroleum from such sources as drilling in the Arctic and other places, extracting bitumen from Canadian tar sands, and extracting 'tight' oil bound to shale along with natural gas.

The new circumstances presented producers with a major hurdle in extraction costs, so their prices soon began to rise. Not only did the new players recover their costs by passing them on to consumers; after all, it was a single commodity, inviting traditional sources of conventional oil to follow, raising their own prices to collect the rents associated with the new economic structure. The result was today's relationship between demand and price, in which a demand increase of just one million barrels per day drives the price of oil up by 10 cents per barrel.

This new relationship invites oil-importing nations to look around for ways in which demand could be reduced in order to bring prices down. My colleague Carl Pope points out that various such mechanisms exist: for example, a new biofuel industry that

provided a competing substitute; or a program that would make buildings and transportation systems more energy-efficient; or new technologies for producing wind, solar, hydro and other renewable energy sources. All of the above could yield such relief – but no single nation could do all of this at the same time. That has led to the idea of a “counter cartel” -- an organization of several oil-importing countries (e.g. Russia, China, the US) that might subdivide the task of providing demand relief. Such an arrangement would surely be politically difficult – but the circumstance is urgent enough to demand that we create a “coalition of the unwilling”.

The forthcoming climate crisis should present strong incentives for resolving the mess created by oil pricing. The carbon intensity of fossil fuel use is bringing us closer every day to a well-understood list of civilization-altering disruptions: droughts and floods, intense weather events, and sea-level rise. Even those who question human agency in climate change now doubt the wisdom of ignoring the risks it presents. The importance of rescuing civilization might persuade some of the great geopolitical powers to stop fighting and consider a new deal.

MAHB-UTS Blogs are a joint venture between the University of Technology Sydney and the Millennium Alliance for Humanity and the Biosphere. Questions should be directed to joan@mahbonline.org

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