Module 22

The International Politics of Oil

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How does oil compare with other natural resources in terms of its share of energy consumption? What

sorts of consequences occur when oil prices go up?

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What are the important characteristics that make the international oil market unique? Why is it important

that oil is traded in a single open market?

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What are the unique characteristics of the demand for oil? What does it mean that oil has “inelastic”

demand and few substitute goods? How does this affect demand for oil?

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Describe the contours of the supply and demand on the global oil market? Who are the big players?

How has new exploration in North America, such as shale oil, changed things?

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What is OPEC? How much oil does it control? How does it operate to manage oil prices? What is the

special role of Saudi Arabia? What has OPEC done in response to the US shale oil revolution and how

has the “price war” initiated by Saudi Arabia and OPEC affected global oil prices and US oil production?

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What is the shale oil revolution? What does it mean for the US to be energy independent and how does

the shale oil revolution affect American energy independence? How has the shale oil revolution affected

the global price of oil and how have lower oil prices affected geopolitics, especially in the Middle East?

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According to Glaser and Kelanic, why should the United States consider halting its physical protection

for oil sales from the Middle East?

The International Politics of Oil

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Oil in the global economy

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The global oil market

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How is shale production transforming oil markets?

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How does OPEC influence global oil prices?

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What are the consequences of shale production for US foreign policy?

Oil: Why Care?

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Key energy resource

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About 33% of total global energy consumption (natural gas at 24%, coal at 30%)

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About 37% of total energy consumption in US (natural gas at 30%, coal at 20%)

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Significant portion of global trade (about 15%)

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When oil prices up

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Gas prices up (more expensive to drive to work, fly in a plane, conduct international trade, and move goods within domestic economy)

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Can induce global recession: stagflation of 1970s

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Transfers wealth from key oil-importing countries (US, Europe, Japan, China) to oil-exporting countries

(Saudi Arabia, Russia, Venezuela)

Global Oil Markets (I)

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Single global market for oil

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Spot and futures markets (trade contracts to deliver barrel of oil at specific date; don’t actually physically exchange oil)

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Important fact in debates about energy independence

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Even as US imports less, price can still be shocked by developments in Middle East, Russia, and China

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Total global petroleum consumption at 90.4 million barrels/day

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Up from 77.5 mbd in 2001

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US consumption at 19.0 mbd (2013), down from 19.7 mbd in (2001)

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Adjustment from run up in prices to 2008 and then from Great Recession

Global Oil Markets (II)

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Price determined by intersection of supply and demand

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Demand

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Relatively inelastic in the short run: quantity demanded not responsive to shifts in price

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Few substitute goods (at similar price)

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Spikes in oil prices often caused by outward shift in demand curve

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Great Recession slows demand growth in developed world (US, Europe, and Japan)

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Huge growth in developing world and BRIC countries (mostly China)

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China from 4.9 mbd (2001) to 10.1 mbd (2013), accounts for 57% of growth in global oil consumption since 2005

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India from 2.2 mbd (2001) to 3.5 mbd in (2013)

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Brazil from 2.2 mbd (2001) to 3.1 mbd (2013)

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Russia from 2.6 mbd (2001) to 3.3 mbd (2013)

Global Oil Markets (III)

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Supply

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OPEC key supplier, production from 30.6 mbd (2001) to 36 mbd (2016)

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Saudi Arabia: from 9.1 (2001) to 11.6 mbd (2013) to 10.6 (Nov. 2016)

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Iraq: from 2.4 (2001) to 3.1 mbd (2013) to 4.7 (Dec. 2016)

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Iran: from 3.8 (2001) to 3.2 (2003), can see effects of sanctions revised 4.7 (2016)

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Russia significant player in oil markets: from 7.2 mbd to 10.8 mbd (2016)

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Big growth in production capacity in North America

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United States (shale): from 9.0 (2001) to 12.3 mbd (2013) to 9.5 (2016)

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Canada (tar sands and shale): from 2.8 (2001) to 3.9 (2016)

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Supply up: new investments in production capacity stimulated by upward price shocks associated with 9/11 and Iraq War

Organization of Petroleum Exporting Countries (OPEC)

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Members: Algeria, Angola, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, UAE, Venezuela

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Holds about 80% of known proven global reserves 1.2 of 1.5 tril. barrels (mostly in Venezuela, S. Arabia, Iran, Iraq, and Kuwait)

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Operates like a cartel: limit global supply by setting production quotas to push global prices up

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Saudi Arabia as swing producer: has reserve capacity and changes production levels to stabilize global markets

The Geopolitics of Oil

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Recent cooperation within OPEC impacted by Iranian nuclear accord

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No production sharing agreement until Iran’s production reaches pre-sanction levels

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Shale and shifting American interests with respect to the Middle East

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Obama’s pivot to Asia