Oil and geopolitics

Crude arguments

The problem with oil is not its shortage, but rather its concentration

At the end of the second world war, President Franklin Roosevelt attended a summit that changed the course of world history. No, not that meeting at Yalta, with Joseph Stalin and Winston Churchill. Immediately after that, Roosevelt travelled quietly to the USS Quincy, anchored near the Suez Canal. The man with whom he met had barely set foot outside his home country, and insisted on bringing along his household slaves and royal astrologer.

That man was King Ibn Saud of Saudi Arabia. In the years before the war, the desert kingdom had gone from sleepy backwater to the most promising oil province in the world. Military planners in America were painfully aware of the swift decline in their own country’s domestic reserve. So, in return for guaranteed access to Saudi Arabia’s vast quantities of oil, Roosevelt promised the tribal chieftain America’s full military support. In the decades since, the vow has proved to be one of the few fixed points of global politics—though for how much longer is an open question.

That close military relationship has helped feed a favourite current conspiracy theory, that of “blood for oil”, i.e., that American blood in Iraq is being spilt for the benefit of oil interests. Another popular theory is that the oil is running out altogether. Politicians of both parties in America have latched on to these ideas, and now champion notions of “energy independence”. That blood is being spilled for oil; that oil is anyway running out; and that energy independence is therefore a magic solution; all are superficially attractive propositions. Yet they are also all wrong. Happily, three intelligent new books cut to the quick on these issues.

The biggest fallacy is that the world is about to run out of oil. A spate of recent books, with such titles as “Out of Gas”, argue that oil is scarce, and that an impending crisis will put the crises of the 1970s and early 1980s in the shade. Some see the recent rise in oil prices to $50 a barrel as a dire warning.

Nonsense, argues Peter Odell, a grand old man of oil forecasting who proved wrong the pessimists of the 1970s. In his new book, he points to two flaws in the argument that a peak in global oil production is coming, followed by decline: both technology and economics are ignored.

As experience has shown time and again, oil technology just gets better. The industry now uses tools unavailable in the 1970s—ranging from seismic imaging of reservoirs to advanced supercomputers to tap oil from places unimaginable back then. As a result, proven reserves of oil are actually larger today than they were three decades ago. Also, price signals matter: if there were a real scarcity of oil, prices would soar and companies would scramble to find more oil. The alternatives, while consumers would use less of it. Mr Odell argues, quite reasonably, that “non-conventional” oil—such as that made from Canada’s mucky “tar sands”—will make up for an eventual decline in conventional sources of oil. His conclusion will anger some and surprise others: gas-guzzlers will have plenty to run on for the rest of this century.

The problem with oil is not its scarcity, rather its concentration. That is one powerful conclusion drawn by Michael Klare in “Blood and Oil”, a thoughtful and well-researched history of oil and geopolitics. Mr Klare is certainly critical of American policy, particularly of the way the United States has cosied up to nasty regimes because of their supplies of oil, helping prop up the House of Saud, for instance. Yet he counters the claim that the invasion of Iraq...
was "all about oil".

Mr Klare provides a service when he puts America's close ties with Saudi Arabia in a historical context that mocks the charges—made by Michael Moore, for example, in his film "Fahrenheit 9/11"—that the Bush clan has done most to shape the relationship. He starts with that meeting between Roosevelt and Ibn Saud. He notes that it was the doctrine of Jimmy Carter, a Democrat, explicitly to defend America's access to oil exports from the Persian Gulf "by any means necessary".

The independence myth
In short, the militarisation of America's energy policy has been a bipartisan affair. And it is Mr Klare's view that serious problems are in store. He notes that two-thirds of the world's proven reserves of conventional oil lie in the hands of five countries in the Persian Gulf, with Saudi Arabia atop one-quarter of the world's reserves. As oil gets depleted rapidly in other parts of the world, the West will come to depend ever more upon these currently undemocratic and perhaps unreliable countries.

For neoconservatives in Washington, that is one more reason for fostering, by force if necessary, liberal values and democracy in the Middle East. For many congressmen, it is a reason to call for energy independence. Yet the phrase has become misleading, for it is used to justify subsidies for pork-barrel projects or mere sops to the industry, such as drilling for oil in the Alaskan wilderness. Given that America consumes a quarter of the world's oil but has barely 3% of its proven reserves, it will never be energy-independent until the day it stops using oil altogether.

How to get there? Amory Lovins has some sharp and sensible ideas. In "Winning the Oil Endgame", a new book funded partly by America's Defence Department, this sparky guru sketches out the mix of market-based policies that he thinks will lead to a good life after oil.

First, he argues, America must double the efficiency of its use of oil, through such advances as lighter vehicles. Then, he argues for a big increase in the use of advanced "biofuels", made from homegrown crops, that can replace petrol. Finally, he shows how the country can greatly increase efficiency in its use of natural gas, so freeing up a lot of gas to make hydrogen. That matters, for hydrogen fuel can be used to power cars that have clear "fuel cells" instead of dirty petrol engines. It would end the century-long reign of the internal-combustion engine fuelled by petrol, ushering in the hydrogen age.

And because hydrogen can be made by anybody, anywhere, from windmills or nuclear power or natural gas, there will never be a supplier cartel like Opec—no suspicions of "blood for hydrogen". What then will the conspiracy theorists do?