SHOWDOWN WITH IRAN: IMPLICATIONS FOR GLOBAL OIL

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Global Total Primary Energy Supply by Fuel

1. World includes international aviation and international marine bunkers.
2. In these graphs, peat and oil shale are aggregated with coal.
3. Includes geothermal, solar, wind, tide/wave/ocean, heat and other.
Primary Energy Consumption

Primary energy consumption by fuel


Billion toe

- Renewables*
- Hydro
- Nuclear
- Coal
- Gas
- Oil

Shares of primary energy


- Oil
- Coal
- Gas
- Hydro
- Renewables*
- Nuclear

*Renewables includes wind, solar, geothermal, biomass, and biofuels

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Global Proved Oil Reserves (Billion Barrels)

BP Statistical Review of World Energy 2016
Policy Developments: US Energy Dominance

- World’s largest producer of oil and natural gas
- Infrastructure bottlenecks; Associated gas
- Security of price
- Allies’ energy security
- Global oil price; spread between Brent and WTI
- High oil prices not affect the US economy like in the past
Oil Market Trends

- Fundamentals proving to be best indicator
- Price cycles are normal.
- **Tight or liquid oil market is best indicator if geopolitics matters**
- OPEC versus non-OPEC; ROPEC; ROPECA
“The Oil Weapon”

- Used mostly by the consumers
- Oil exporters vulnerable to disruption of oil market: Strait of Hormuz
- Rarely successful by producers
- Market of 1970s is not the market of today and even then was not a successful embargo
- International Energy Agency, Strategic Petroleum Reserve
IRAN SANCTIONS REGIME

- Compliance with sanctions: governments no, but companies yes, especially in Europe
- Turkey compliance this time
Iran’s strategy

- Iran strategy: remove sanctions or war/high oil prices
- Attack on Abqaiq complex-- part of larger strategy: airports, disrupt transit through Strait of Hormuz --ships
- Houthis: yes- proxy for Iran; need to treat it is Iran; other proxies
- Iran wants “regime change” in the USA and Saudi Arabia; high oil price before elections.
What do we learn about the oil market response?

- Question on demand – global recession?
- More accurate? Data on inventories? Can USA data be misleading?
- Automated trades: too much weight for potential trade wars, especially with China?
No US or other explicit military response at this stage.

Iran also did not get what wanted- sanctions off.

Sanctions will be increased.

Iran--additional attacks: on other oil production/transit (Caspian?)
Oil and gas: Power or Vulnerability?

- Oil and gas resources provide livelihood and thus contribute to a state’s power.
- However, they also create an obvious strategic vulnerability, an easy target.
- Energy infrastructure is a producing country’s “throat”.
- Prize.
Unprecedented domestic challenges in Iran

Every border: Kurds, Baluch

Oil producing region Khuzestan
Security implications

- Protection of critical energy infrastructure: Abqaiq was the doomsday scenario in exercises, and yet nothing happened.
- Was easy to attack and easy to fix.
- Iran accelerating confrontation.
- Any target that can increase price of oil.
- LNG trade.
- LNG supplied gas vulnerabilities vs. pipeline.