

The Era of Oil Abundance

Meet the winners and losers of the coming age of plenty.

BY STEVE LEVINE | JULY 17, 2012



We are suffering whiplash: For nearly four decades, OPEC -- the cartel formally known as the Organization of Petroleum Exporting Countries -- has been a major economic and geopolitical force in our collective lives, driving nations to war, otherwise self-respecting world leaders to genuflect, and economists to shudder. The last half-dozen years have been especially nerve-racking as petroleum has seemed in short supply, oil and gasoline prices have soared to historically high levels, and China has gone on a global resource-buying binge. Russia's Vladimir Putin has strutted the global stage, bolstered by gas and oil profits, and Venezuela's Hugo Chávez has thumbed his nose at *los Yanquis*.

Yet now we are hearing a very different narrative. A growing number of key energy analysts say that technological advances and high oil prices are leading to a revolution in global oil. Rather than petroleum scarcity, we are seeing into a flood of new oil supplies from some pretty surprising places, led by the United States and Canada, these analysts say. Rather than worrying about cantankerous petrocrats, we will need to prepare for an age of scrambled geopolitics in which who was up may be down, and countries previously on no one's A-list may suddenly be central global players.

One primary takeaway: North America seems likely to become self-sufficient in oil. "This will be a huge potential productivity shock to the U.S. economy," says Adam Sieminski, director of the U.S. Energy Information Administration, a federal agency. "It could grow the economy, grow GDP, and strengthen the dollar."

OK, we get it -- we will need to relearn our basic geopolitics. But how so? Last week, the New America Foundation gathered six leading energy analysts to take a guess as to the winners and losers over the next few decades from the

unfolding new age of fossil fuel abundance (video [here](#)). Here's what they told us:

WINNERS

The United States: Jobs increase, wages and productivity go up, the dollar strengthens, the current account deficit becomes negligible, and America has a new day as an economically dominant superpower. It is far and away the biggest winner of the new age, the analysts agreed. As far as Americans are concerned, what's not to like? Citigroup's Ed Morse waxed rhapsodic: "We will no longer be kowtowing to despotic rulers and feudal monarchs whose oil supply lines are crucial to other aspects of foreign policy. Those tradeoffs will be eliminated." Perhaps a bit Pollyanna-ish, but we get the general idea.

New petrostates: Aren't we forgetting those unsung nations that, depending how they manage the new age of plenty, can also very well end up with far more robust economies and as geopolitical players? The following 10 countries -- all of them burgeoning new petrostates -- make the winner's list because, even if they ultimately botch the moment and send most of the profit into private Swiss bank accounts, the coming energy boom gives them a much greater chance at big economic prosperity: Cyprus, Ethiopia, French Guiana, Israel, Kenya, Mozambique, Sierra Leone, Somalia, Tanzania, and Uganda.

Cooperation: Western suspicion of China has been fueled by its aggressive acquisition of natural resources around the world, especially oil and gas fields. But "in a world of plenty," said Ed Chow of the Center for Security and International Studies, "the zero-sum nature of the discussion could come out of the equation." Chow thinks we are already seeing the first stages of this more relaxed future in the U.S. attitude toward billions of dollars in **recent Chinese investment** in U.S. shale gas and oil fields. That is far different from 2005, when public and political opinion **aborted** China's attempt to buy Unocal almost before it reached a serious stage. Chow likes this new atmosphere. "It was never a very healthy phobia that we had to begin with," he said. Looking ahead, Chow wonders whether the United States might end up collaborating with China and India in patrolling the Persian Gulf.

LOSERS

Unenlightened petrocrats: Oil prices could be lower and volatile in a world of surplus. So for states relying on a single economy such as oil or gas, "it is not a pretty picture," said Morse. He forecasts much political turmoil, and a struggle to keep market share. That includes Chávez for sure, but could also jostle Teodoro Obiang Nguema, the allegedly corrupt president of Equatorial Guinea, Turkmenistan President Gurbanguly Berdimukhamedov, and Iranian Supreme Leader Ayatollah Ali Khomeini.

Russia: Michael Levi of the Council on Foreign Relations led the panelists, plus many audience members, in singling out Russia as a key loser since Putin shows no sign so far of genuine economic diversification. For his state budget to break even, Putin requires an estimated oil price of **\$117 a barrel**. Right now it is 12 percent below that threshold, or about \$103 a barrel. Struggling to make up the difference but with no tools other than oil and gas to do so, Putin seems headed for a tougher political experience than in his previous tenure as president in the 2000s, when he rode a wave of public popularity based on a growing and optimistic middle class. When Russians realize their living standard is static or diminishing, they will not be happy. (On the plus side, a Putin shorn of the emboldening force of petrodollars might be friendlier with the rest of the world.)

The green edifice: The movement to slow or stop global warming could be derailed as winning nations focus more on

getting rich than cleaning up their carbon footprint, concluded Robin West, CEO of PFC Energy, an energy research firm. The bar was already high for green-tech companies to compete against the economics of fossil-fuel energy; with lower oil and gas prices, the bar rises higher. There is a ray of hope, though: Rather than driving green-tech companies out of business, lower energy prices could create a new consumer choice. "Depending on how you value the environment and [what you think about] global warming," you can choose to run your life on fossil fuels or on cleaner technology, said Chow. Who knows? Policymakers may reverse their current ambivalence, too, and decide that, even though fossil fuels are plentiful, it is better to go clean.

OPEC: With prices dropping and competing supplies flowing from numerous new producers, OPEC will lose much relative influence, and may simply cease to be a pivotal economic player. "OPEC will descend into chaos as an organization," said John Hofmeister, former president of Shell USA. "They don't know now how much they are hated by the entire world. But they will find out as things unfold." One litmus test for this new era of abundance will be if there is some form of repetition of Saddam Hussain's 1990 invasion of Kuwait. Two weeks ago, a senior Middle East diplomat asked PFC Energy's Robin West whether, a decade from now, the American public would get behind the deployment of tens of thousands of troops if Kuwait's oil were threatened. "I said, 'I don't think so,'" West said.

So there you have it: OPEC gone, Putin flat on his back, Iran's theocracy seriously undermined, and suspicion of China tamped down. What will we worry about?

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