

Arab World's Turmoil May Spell Sudden Petrocollapse

Contributed by Jan Lundberg, independent oil industry analyst
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Gasoline prices have been rising this winter in the U.S., even though we are well outside the summer driving season with its traditionally highest price level. Among the reasons for today's higher gasoline and crude oil prices is the high demand for heating oil during this extra cold winter, as heating oil in some northern parts of the world is a life-and-death commodity. This can put some pressure on gasoline supplies as refineries might attempt to maximize heating oil output, although refining requires producing a constant balance of light, medium and heavy products, at fairly high utilization of capacity.

Crude oil prices have been moving toward the \$100 per barrel mark. The actual price for crude and petroleum products is much higher in some nations due to subsidies (direct and hidden), keeping prices artificially low. But the official price of oil seems on the way to break the \$147 / bbl record from July 2008. Whether the emerging economic powerhouses China and India are the main reason for higher oil prices is academic, when the whole world is affected by developments in price and supply anywhere.

The stability of countries such as Egypt and other Arab states has been proven illusory. When the right geopolitical event in the Persian Gulf -- perhaps connected to the Tunisian, Egyptian and Yemeni trends now in play -- interrupts oil supplies by as much as 10% or more of global demand, the effect on the oil market may well be as if Hubbert's peak oil bell curve became a cliff that we have already jumped off.

A revolution in Saudi Arabia has been my favorite example for years, in terms of illustrating what can spark a return to the 1970s' skyrocketing oil prices, panic buying and hoarding. As grocery shelves will be emptied in a few days when a major oil supply crunch hits, as the late Matt Simmons reminded us, what difference does it make how many billions of barrels of crude are really off Brazil's coast?

Now, when people didn't expect it but should have, we see that Arab peoples have indeed been chafing under dictatorship for decades. Arabs, as in most places, have been biding their time for liberation. Whether certain regions can soon attain it is another matter, when many have far outstripped their besieged ecosystems' carrying capacities. In Middle Eastern countries the water and soil situations are generally poor and getting worse. Food shortage and food riots can flow from ecological deterioration, especially as new weather patterns (or non-patterns) have been increasingly disruptive for agriculture. This is one argument for activists in Arab lands to remember there is no liberation or equality on a dead planet.

Although the Egyptian uprising or revolution is hundreds of miles removed from the Persian Gulf, where 18% of the world's total trade in crude is shipped through the Strait of Hormuz, a common spirit of rebellion has spread in the region. It can take a sharp anti-American or anti-corporate turn and thus affect oil exports to the U.S. In Saudi Arabia where the monarchy is extremely repressive, demonstrators have dared come out of the woodwork after Tunisians sent their dictator packing. International emphasis on military security in the region has been on huge ships and the Persian Gulf itself, but numerous facilities on land in Arab countries and nearby nations are vulnerable to attack and closure. Also, the Suez Canal sees one million barrels of oil pass through each day from the Red Sea to the Mediterranean (source for figures: Energy Information Agency, U.S. Dept. of Energy).

The number of separate but linked oil facilities, extent of damage, or days of closure do not have to conform to some arithmetic model for there to be a massive reaction in the world oil market. The perception of supply shortage, with real instances affecting deliveries, is what drives oil prices on the world market, much as the stock market sometimes has a herd mentality. So far we are talking about what most observers would consider a temporary oil supply disruption resulting in a price spike. However, if the disruption and spike are strong enough, severe effects can shut down much of

the global economy and simultaneously stop much local activity. Petrocollapse -- the exacerbated and lasting failure of the world oil market to meet demand, and the paralysis and collapse of most of the economy's infrastructure relying on petroleum -- does not need to follow a formula or specific pattern of oil industry breakdown or a certain depletion schedule of oil reserves. We will only be sure when petrocollapse hits. Because peak oil has been attained, we can say that the petrocollapse process has begun and just needs a catalyst to tip the whole economy and trigger famine on a scale as large as some future climate disaster.

I don't believe the "Transition Town" or less-known "Stair-case slow collapse/catabolic" viewpoints take into account adequately the extreme vulnerability of and to the oil market. The Transition Town and Stair-case adherents' views, hopes, dreams and assumptions may actually refer to social change from civilization collapse, when they may think they are referring to the post-peak oil downslope, or vice versa. But this may make no difference as events may accelerate, and collapse and die-off throw theory and wishes out the window.

In my oil analysis career at Lundberg Survey, we accurately predicted the Second Oil Shock based on our finding that in March 1979 there would be a 9% (nine percent) shortfall of gasoline for U.S. demand. It was a time of billions fewer humans and rising oil production (extraction). The world also seemed poised to follow through with stringent conservation and development of alternative fuels. After Jimmy Carter's failure to catch fire with those strategies, energy efficiency actually reversed direction with the SUV phenomenon. But any slight per capita gains, had they been consistently in the right direction for conservation, are offset anyway by growth, while efficiencies paradoxically end up adding to more consumption.

Since 1979, aggregate energy demand has not been tamed in the least, and growth of the global oil infrastructure has dangerously proliferated. Peak oil extraction happened worldwide around 2006, according to the International Energy Agency, although "peak" is not a single year due to the advent of nonconventional crudes and biofuels over time. Peak oil is the main reason we are living in very different "oil times" since 1979: growth of crude supply has turned a corner, starting downward. Compared to past years, even conventional crude (light, sweet, easily extracted) -- besides unconventional and expensive, extra-polluting oil replacements -- is far more expensive to exploit, with lower net energy obtained for newer fields.

Petrocollapse will not be limited to the U.S., as we shall see when dominoes fall. The bigger they are, the harder they fall.

The popular faith in renewable and other alternative fuels to "save us" from dwindling oil reserves or from a loss of Middle Eastern or OPEC oil ought to be shattered prior to the rude and crude awakening from a significant supply crunch. The alternatives are not ready on a large scale, and generally only provide electricity rather than liquid fuels or petrochemicals or other materials. We will only wake up en masse when chaos starts to rapidly unfold -- as if it hasn't already.

One is constantly cautioned to never conclude on a sour note. So I will point to the silver lining of collapse as a liberator far more fundamental than regime change. This is because basic relationships in society will be radically altered by extreme lifestyle change brought about by the loss of petroleum and by having to painfully face the recent separation from natural cycles that modern technological societies have "achieved."

The U.S. is still thought to be the richest country in the world, but increasingly this fact requires the caveat of a greater and greater gap between the rich and poor:

According to the CIA World Fact Book, the U.S. is ranked as the 42nd most unequal country in the world. In contrast, Tunisia is far better off, ranked the 62nd most unequal country. Yemen is ranked 76th most unequal. And Egypt is ranked as the 90th most unequal country! And inequality in the U.S. has soared in the last couple of years. (See Washington's Blog, which asks, "So why are Egyptians rioting, while the Americans are complacent?" - informationclearinghouse.info)

The New York Times published on Jan. 31 that in Egypt "long-simmering resentments have burst into open class warfare." (nytimes.com)

As poor as the Arab peoples are who are rioting and replacing regimes, and as important as this is for Arabs and all people under oppression, it is even more urgent for U.S. citizens to focus on questioning their own circumstances vis-a-vis petroleum dependence. Fossil fuels do not make us safer or healthier. Besides getting soft from sitting in our cars, before the TV and under the influence of many pharmaceutical drugs made from fossil fuels, U.S. citizens seem to still want to believe all is more or less well. As to energy, many still believe "They will think of something." But some of us would rather "Imagine" and create now a radically more liberating and equitable world and way of living, as John Lennon Imagined.

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Oil Flows, but High Prices Jangle Nerves,
by Steven Erlanger, February 19, 2011

Author Albert Bates sent this message out on Twitter on Sunday, January 31:

peaksurfer Albert Bates

RT @winmontalvo #Jan25 #Egypt: Soon Egyptians may begin long labor strike to shutdown Suez Canal. OK, now we're strangling the beast! Gulp?

Culture Change thanks Albert for his valuable input to a draft of the above article.

Background on Egypt's food and oil trends:

"Egypt & oil - Jan 29" a round up by
Energy Bulletin that includes:

CNBC anchor implies US must support dictators to keep cheap oil flowing
David Edwards and Stephen Webster, The Raw Story

Oil prices climb on unrest in Tunisia, Egypt, Lebanon and Yemen

by Ronald D. White, Los Angeles Times

Traders are buying up futures in case the anti-government sentiment disrupts output in the area's oil-rich countries, analysts say.

What's behind Egypt's Problems? How do they affect others? by
Gail Tverberg, Our Finite World

Energy Information Administration (US Dept. of Energy)
World Oil Transit Chokepoints
Last Updated: January 2011

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