

Geopolitics of oil production and its environmental and economic impact

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John Ballantine Jr.

After a winter that saw the price of oil drop to historic lows, what does the future hold for the American consumer and the worldwide market?

John Ballantine Jr., a senior lecturer at the Brandeis International Business School and an expert on the global political economy and energy finance, sat down with BrandeisNOW to talk about the geopolitics of [oil](#) production, as well as its effect on the environment and the economy.

BrandeisNOW: The price of oil went down in the U.S. this year and is steadily climbing again. Is there any chance it returns to those lows in the near future?

John Ballantine: Oil price movements are the reflection of changes in supply and demand. There's been more supply of oil in the global market because of Saudi production and the increased production of U.S. fracked oil that has resulted in a tremendous increase of oil in the U.S. over the past three years. Prices went down in the winter because the supply went way up – the Saudis decided not to reduce production.

So, in macro terms, with the U.S., Saudi Arabia and Russia being the three big oil producers in the world, there's a lot of oil out there while demand is relatively flat. Currently, the U.S. drilling rig count has dropped considerably, which will lead to lower production over the coming year. This means that prices will probably stabilize over the next six months, depending, of course, on changes in global supply and demand.

BrandeisNOW: You mentioned that the U.S., Saudi Arabia and Russia are the biggest oil producers. To what extent is the cost and production of oil a geopolitical issue?

Ballantine: Oil is a world commodity and it's been a geopolitical issue since World War I when the Middle East was divided up after the fall of the Ottoman Empire. Today, there's less of an OPEC oligopoly and it's a much more fragmented oil and gas world. For example, the Middle East is not a cohesive group of actors. Many are concerned about the geopolitical instability in many countries. For instance, at the current oil price level, many resource-dependent countries are facing considerable budget pressures. That creates the possibility of even more instability in the region. Countries that have been subsidizing large portions of their economy like Russia, Iran, Iraq and Saudi Arabia, are facing budget deficits—that can be problematic, particularly if you do not have cash reserves.

BrandeisNOW: Is there anything in particular you'd monitor in the Middle East?

Ballantine: If the nuclear negotiations with Iran come to an agreement, the global oil and gas export markets will open up, you'll see an additional supply coming on the market over the next couple of years and putting downward pressure on prices.

The conflict with ISIS is much more problematic and directly destabilizing for Iraq and Syria, but it also has created a huge refugee problem that is unsettling for many other countries. Besides the humanitarian tragedy, many countries in the Middle East and the Persian Gulf are struggling to hold onto to functioning economies and civic societies. The conflict with ISIS and its contradictory set of alliances is creating a very challenging map. And yes, instability in the area leads to more risk and potentially less production of oil and consequently higher and more volatile oil prices.

BrandeisNOW: So given how fragile political

situations are overseas, is the U.S. capable of being more self-sufficient in regards to oil production?

Ballantine: Yes, more self-sufficient, but only recently, within the last five years, through the horizontal drilling technology that's enabled us to produce more from known U.S. fields. But the tougher question is whether you feel that the U.S. should be more interdependent and internationally engaged, or more energy independent and even isolationist. It is a messy world out there. There's a strong push by some to be more isolationist and take care of our own energy needs and disengage from the challenges around the world. We haven't really figured out a good way to handle the Middle East politically, and Russia and Eurasia has thrown up many challenges. Many of the actors there are difficult.

BrandeisNOW: Does the current, worldwide state of oil production make it easier to create taxes and tariffs that are geared toward preventing climate change?

Ballantine: Certainly most economists, when wearing their environmentalist climate change hat, believe that we should tax our externalities. We should pay for the cost of using fossil fuels in our economy. The cost of producing and using oil in our economy is the carbon dioxide—and other emissions—that are put in the atmosphere. Politically, there is strong opposition to a gas tax or carbon tax in the U.S. Some economists have proposed a tariff on high carbon content goods.

If we had a carbon tax on oil and other fossil fuels, a real tax, it would incent us to develop other energy resources. A carbon tax would add

additional costs, however. But, there's no question that such a measure would force us to invest in and switch to other resources. Estimates show that growth might slow by half a percent per year, if we put in a real [carbon tax](#).

These are the economic and environmental issues that we need to talk about, because the question is what type of market economy and world do you want to be living in 50 years from now?

Provided by Brandeis University

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