

Security of Oil Supply in the 21st Century

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The security of oil supplies has been a prominent political issue since the world's great naval fleets were converted from coal, but while the fundamentals of the oil market have changed dramatically over that time, the policy concerns have not evolved as they should have. In particular, too many governments still worry about being denied access either by national governments in oil exporting countries or by foreign-owned oil companies. Yet, the only successful supply-side embargo was carried out by the US and UK in 1941, and the only successful demand-side embargoes were carried by the UK in 1951 and the US-led coalition in 1990. (A definite pattern can be seen.)

The world oil market now includes no significant control by any political group that would allow consumers to be denied access to supply short of either military intervention or a UN-led embargo, either of which would require extraordinary political circumstances like invasion of a neighbor. The dispersion of supply, by nation and company, is so much greater than even in 1970 that embargo has become all but unthinkable. Similarly, despite the rise of Saudi Aramco and the mega-mergers amongst the multinational oil companies, market control is a fraction of what it was before the nationalizations of the 1970s. Thus, government efforts to promote diversity of supply sources are largely meaningless, as are subsidies to domestic oil producing companies.

But problems remain, primarily the possibility of unintentional loss of supply due to war, revolution, labor action and so forth, as well as the threat of consumer hoarding, such as occurred in 1979. Both are dealt with by maintaining surge capacity rather than diversification of supply or the development of alternative energy sources.