power window

crunch time

By Jeffrey Winters, Associate Editor

The first two months of the year were a time of revolt in North Africa and the Middle East. First Tunisia overthrew its long-time dictator. Then unrest moved to Egypt, Yemen, Bahrain, Jordan, Libya, and elsewhere. At the time the magazine went to press, the protestors in Cairo had successfully ousted the Egyptian president and gun battles were being waged across several cities in Libya.

Also, the spot price for Brent crude on the New York Mercantile Exchange shot past $110 a barrel. That was 30 percent higher than the level at the start of December.

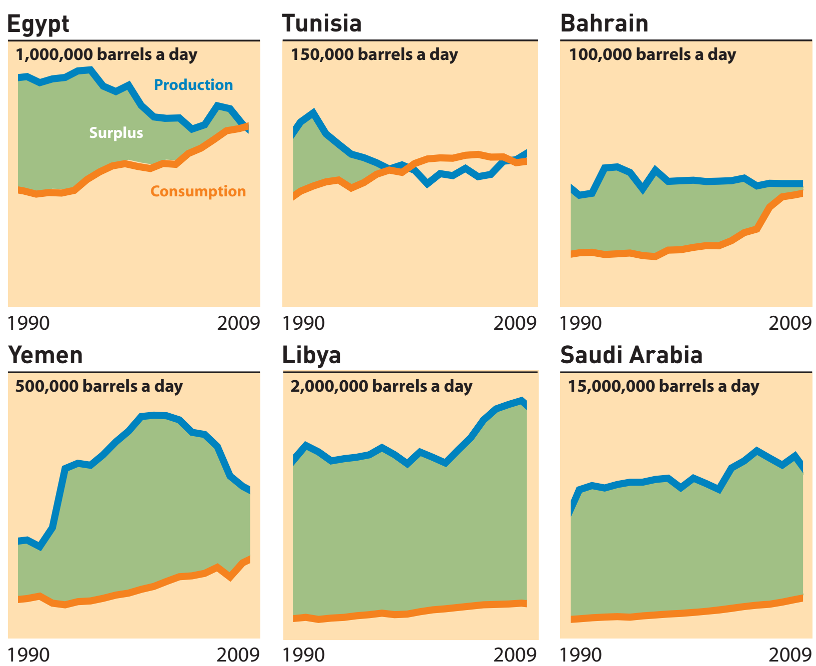
While many in Europe and especially North America might grumble (some, to the point of suggesting a conspiracy of sorts) about the effect that the revolutions in the Arab world have on gasoline prices, petroleum can be listed as a contributor to the uprisings as well. Some of the countries undergoing upheaval are experiencing something of an energy identity crisis.

While not every Middle Eastern and North African country has large oil fields, most have enough to be self-sufficient. That independence has enabled the governments there to insulate their people from the full price of oil. According to figures published by the German Federal Ministry for Development and Economic Cooperation, the retail price for gasoline in countries such as Libya, Saudi Arabia, Bahrain, and Yemen was at or below the cost on the world market of the petroleum needed to produce it.

That kind of subsidy encourages consumption. Indeed, as was mentioned in this magazine back in October 2007 ("Squeeze Play") the rate of growth in oil consumption from 1980 to 2004 among the 12 members of OPEC far outstripped what was seen in the rest of the world. In fact, the consumption curve can rise so steeply that it will inevitably intersect with the production curve.

That's what happened in Egypt, which went from an exporter of more than 300,000 barrels of oil a day in 1999 to a net importer beginning in 2009. And as a consequence, the prices for gasoline in Egypt went from below the raw material cost as recently as 2006 to being comparable to those in the U.S.

The charts on this page show petroleum production (including natural gas liquids) and consumption for six countries, using the most recent data from the Energy Information Agency. The charts all start at zero, but are on different scales to better show detail. Tunisia shifted from an exporter to an importer in 2000, and thanks to strong consumption growth Bahrain has seen its exports plummet from more than 30,000 barrels a day in the 1990s to around 3,500 today.



Now, it would be reductive to the point of insult to pin the turmoil in the Arab world entirely on oil exports petering out. Other factors—from food prices rising due to drought-withered harvests around the world to inability of a generation steeped in modern communications technology to put up with Cold War era autocrats and monarchs—were likely more responsible. And Yemen and Libya, which have seen uprisings, still have large oil surpluses.

As does Saudi Arabia, which produces so much oil that the scale of its chart had to be reduced to a ridiculous extent. But the Saudi consumption curve is climbing at about 4 percent per year, and unless the country can raise production above 11 million barrels a day, its exports will disappear by 2050. When that happens, there may be revolutions everywhere. ■