Oil supply risk for transport and miners

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Compared with the time of the 1973 oil crisis, today's global oil supply system is more flexible and resilient. Paradoxically, however, all countries and all industries that depend on imported oil are today more vulnerable than ever to long-term supply disruptions.

The continuing increase in global energy demand – mainly in Asia – without counterbalancing on the supply side has made the global oil market hostage to governmental intervention and a range of unmanageable political risks.

This is why Chinese and Indian oil companies, along with the international players and independent oil companies, have been scouring the globe for new sources of supply.

The most risk-exposed countries are those with high levels of import dependency and low levels of indigenous resources. These comprise Japan (100 per cent dependent), Korea (100 per cent), India (76 per cent), the United States (61 per cent) and China (56 per cent). Even Australia is 40 per cent dependent.

The most risk-exposed consumers include airlines, shipping, road freight, petrochemical and mining companies.

Through the Organisation of Petroleum Exporting Countries, the main producer governments say there should be no fear of an oil crisis because they need stable revenues as much as importers need the oil. They say they are concerned about the risk of over-investment in the upstream sector.

There is nonetheless a shortfall in the required level of upstream investment in both OPEC and non-OPEC countries and there is a long lead time for this investment, sometimes up to 20 years to get a new oil field into production.

The oil companies continue to ask producer governments to facilitate further upstream investment. However, many governments continue to control development through state-owned oil companies with the aim of capturing as much as possible of the value of their resources. That is their sovereign right but it creates an investment conundrum. It may also impede the pursuit of sustainable development at a global level.

A collapse in long-term oil demand would occur if there were to be a prolonged global financial crisis but, with the advent of the G-20 and other initiatives, this now seems very unlikely. The most likely scenario is that oil demand will continue to outstrip the required level of upstream investment, making oil supply risk even more acute.

This risk has to be addressed by greatly increased cross-border collaboration and industry restructuring, with higher levels of vertical integration.

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