



Can we have a little reality, please?

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One of the problems that I have had with *The Long Emergency* by James Howard Kunstler is that on just about every page I found some form of statement that I disagreed with, or which was either a gross simplification or a distortion of the situation. Thus it took me until a flight from Anchorage to Maine to finally complete it. And from time to time I may try and explain some of the problems I have with many of the issues that are so glibly addressed therein.

But there is one statement that I suspect is widely accepted, which while presently true may yet, in the near future, radically change. This is the idea that oil is fungible.

In other words it is a commodity where the resource goes into one global market and individual volumes are sold to the highest bidder. It is an assumption that appears in a number of discussions, and is currently relevant since it addresses some of the issues that are tied up in the bid of the Chinese National Offshore Oil Corp's (CNOOC) bid for Unocal. In today's Boston Globe, for example, William Overholt of the Rand Corporation says

"Buying oil wells does nothing to enhance China's energy security. Oil is an internationally traded commodity and in a time of squeeze, whoever has enough money will get the oil."

We have seen in the past where countries in the Middle East have cut off oil to specific countries. What we may see in the future is that the production from certain countries or regions may be either politically or economically directed toward selected countries. There is a move afoot to do this in South America at present, with Venezuela promising to make supplies available at a lower cost to its neighbors.

But I really think that Mr Overholt is displaying a distressing innocence that one should not anticipate from one of his position. CNOOC is 70.6% owned by the Chinese government. And if they choose to have the company ship the oil that it produces to China, rather than putting it on the open market where perhaps Europe or the US can outbid them, then that is within their prerogative. China is investing in oil companies around the world (we listed some of the countries recently) not because it wants the greater return from selling this very valuable commodity on the open market, but rather to protect and provide a resource for its own industries and populations. Thinking or pretending otherwise makes no sense. Bear in mind that the Chinese government no longer desperately needs foreign currency, they have a very large surplus. What they have to have is the oil.

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