



Can A 'Shadow OPEC' of 'Global Guerrillas' Set Global Oil Prices?

Posted by [Prof. Goose](#) on June 18, 2008 - 10:15am

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This is a guest post by John Robb. John is an author, an entrepreneur, a blogger at [Global Guerrillas](#), and a former USAF pilot in special operations. His book, [Brave New War](#) was published in April 2007 by Wiley, which can be purchased [here](#). The book apparently is influential, since Robb was named one of the "Best and Brightest" by Esquire Magazine and invited to speak at a plethora of venues (the DoD, CIA, NSA, NIC, Highlands Forum, Center for Biosecurity, and many more). The book is also being used in universities from the Naval Post Graduate School to Johns Hopkins.

The run-up in oil prices over the last four years is usually framed, likely correctly, as a combination of torrential demand from developing countries (China and India), speculation, and peak supply. Other analysis indicates that production is also being damaged due to NOC mismanagement, political instability, and rapid increases in domestic consumption within oil exporting countries.

However, the rapidity and volatility of current oil prices may be due to a more narrow set of factors surrounding the production of light sweet crude: the comparative quality and scarcity of light sweet crude, world demand, and guerrilla systems disruption.

The Basics

1) Light sweet crude is at the top of the oil quality pyramid. Current excess production capacity, the bulk of new production slated to come online, and the vast majority projected reserves are from the lower strata in the pyramid.

2) The world demands light sweet crude -- this demand is structural (not easily shifted) since most of the current infrastructure is built to process light sweet. As a result, it trades at a significant premium to heavy crude. This puts oil producers in a difficult bind: increased production of heavy crude without a corresponding increase in infrastructure to process it will result in a rapid collapse of prices for heavy crude. Therefore, heavy crude is kept in the ground until prices/infrastructure can support it.

3) Guerrilla systems disruption. Much of our global production of light sweet crude is located in countries where small bands of guerrillas, loosely organized within what's called an open source insurgency, have been disrupting production and preventing investment. The cumulative impact of this activity may constitute a "Shadow OPEC" (akin to the impact of thousands of ants vs. that

A Concentration of Disruption

The war in Iraq has proven to be a proving ground for the strategies and tactics of 21st Century warfare, much like the Spanish Civil War was for WW2. Unfortunately, the bulk of the improvement has been in how small groups of guerrillas/terrorists can defeat a nation-state. Of particular note has been the increasing use of sabotage and targeted violence to induce systemic failures in critical infrastructure. These use of these methods have been concentrated in many of the states that produce light sweet crude.

- 1) Iraq. Ongoing disruption of critical oil infrastructure has kept Iraqi oil production below pre-war production levels. It has also kept new investment (from global sources) that is necessary to repair existing infrastructure, let alone expand it, away.
- 2) Nigeria. Disruption of Nigerian production has radically reduced production (600 - 800,000 barrels a day) already and it is growing.
- 3) Others. Attacks on oil workers in Algeria may indicate the potential of guerrilla tactics to the new model. Attacks on natural gas infrastructure in Mexico last fall and its ongoing guerrilla war may translate into new disruption this year. Venezuela is in an ongoing crisis and may succumb to guerrilla warfare that disrupts production in the next couple of years.

A Shadow OPEC

So, given production limitations and strong/concentrated demand, even small disruptions by guerrilla groups on light sweet crude production is likely to have a direct influence on global oil pricing (in contrast, disruptions aimed at heavy crude production should have little impact on global pricing). Further, there are already active groups in many of the most critical production areas.

Fortunately, from the demonstrated behavior of these groups it doesn't appear that guerrilla/terrorist groups have fully grasped their potential market power with small attacks (despite aspirational pronouncements from al Qaeda and large scale attacks in 2005/2006). Once they do, as bad as disruption is today, it could get MUCH worse.

Why? A direct connection to scalable profits.

Most guerrillas/terrorists are highly entrepreneurial. They participate in everything from land scams to protection money to smuggling to kidnapping. Further, many guerrilla groups already directly profit from the sale of bunkered/smuggled oil to international markets (already worth billions). While higher global prices improve the returns from that activity, so much more money could be made through connections to financial partners able to profit from price movements on international markets. These profits would be nearly impossible to trace.

As we saw with e-mail spam/phishing, even the faintest whiff of profits can turn a loose collection of individuals/groups into a torrential crime-fueled marketplace generated billions and attracting tens of thousands of participants. Are we about to see the same occur with oil?

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