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OIL INDUSTRY CONCENTRATION: SUPPLY BALANCE AND ENERGY SECURITY

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The emerging structure of the world oil industry is characterized by a growing concentration in the ownership and control of oil reserves. Of the remaining world oil reserves, 70% are controlled exclusively by national oil companies. An additional 23% are in countries where the State and/or national oil companies play a dominant role although international oil companies have some access. The international companies have full access to only 7% of world reserves. At the same time, there has been a trend towards increasing consolidation among the international oil companies, with the largest 6 firms controlling 61% of the remaining reserves available to private firms – up from 47% in 1990.

This paper will consider whether a competitive market structure can be sustained over time given the limited number of market actors and the concentration of resources under the control by large players. The paper also examines the implication of these trends for future oil supply and energy security.

In its projections of future world crude oil supply, the IEA implicitly assumes that OPEC will supply the difference between projected world demand and non-OPEC supply. But this assumption is not based on any behavioral model and it is not at all obvious that producing the projected quantities is in the interests of the OPEC suppliers. OPEC supply is largely produced by national oil companies that have multiple objectives and these are not necessarily consistent with maintaining supply sufficient to balance the market at moderate oil prices. A number of national oil companies are being studied for a Baker Institute project. This paper will draw on those studies to examine the incentives and policy objectives of these national oil companies and the implications of those for future supply policies.

Non-OPEC supply projections may also be optimistic. The growing concentration amongst private firms may reduce the competitive pressure to aggressively seek new deposits. The paper will examine recent behavior of these companies where profits are increasingly being allocated towards stock buy-backs and the purchase of reserves from other firms. Exploration expenditures have significantly lagged price and profit increases.

The increased concentration of reserves – especially in the hands of national oil companies– raises questions about future pricing trends and energy supply security. In the past, OPEC and Russia have used oil export cut-offs to exert political pressure. Moreover, many of the world's most prolific resources are located in politically unstable or war-torn regions. This paper will look at these above ground risks and analyze their impact on oil markets and likely influence on consumer country energy policies.