



Oil ‘futures’: Shell’s Scenarios and the social constitution of the global oil market

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ABSTRACT

This article explores the relationship between the oil industry’s representation of operating conditions in key sites of extraction and the constitution of oil futures markets. An analysis of Shell Oil’s recent Scenario publications, the ‘Trilemma Scenarios to 2025’ and subsequent ‘Scramble and Blueprints Scenarios to 2050’, provides insight into both the (global) social construction of oil prices and the oil industry’s reaction to social resistance in its operating environment – whether in the form of movements for resource sovereignty or climate change activism. Examining the implications of these two Scenario publications for key sites of Shell investment, the Nigerian Niger Delta and the Canadian Tar Sands, the article demonstrates that understanding the discursive implications of ‘peak oil’ for the petroleum industry requires contextualizing discussions of ‘scarcity’ within business agents’ role in shaping oil futures markets, and private industry’s interest in the ongoing development of unconventional fossil fuel sources. While the role of deregulated futures trading receives little attention in the Shell Scenarios, speculative trading – and thus perception concerning supply among business agents – is central to shaping global oil prices and thus the social conditions of the oil market.

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1. Introduction

Shell Oil’s most recent scenarios publication begins with a question, followed by an assertion, as follows:

“How can I prepare for, or even shape, the dramatic developments in the global energy system that will emerge in the coming years?”

This question should be on the mind of every responsible leader in government, business and civil society. It should be a concern of every citizen (*Global Scenarios to 2050: Shell, 2008*).

The financial crisis of 2008 saw a precipitous decline in oil prices. While only months earlier analysts suggested that the world had entered an era of over \$100 per barrel oil, prices suddenly dropped under \$70 and in January 2009 to under \$40. Since 2003, rising oil prices had been popularly attributed to increasing demand from India and China, outer limits on oil production in the form of a peak in conventional sources, OPEC influence on available supplies, and security threats posed by Western reliance on reserves in hostile countries (cf. Flood, 2008; Flood and Blas, 2008; Anon., 2008; Blas, 2007; US Energy Information, 2006; Hoyos, 2006; Klare, 2002, 2007; Dennis, 2006; Morrison, 2006, 2007; Morse, 2008; Yergin, 2008). The

price drop partially confirmed the position of a range of sources, including George Soros: that speculation on oil futures, rather than ‘hard’ supply and demand, has been responsible for much upward movement in prices, and market volatility in general (Bina, 2008; Bina and Vo, 2007; Blas, 2009; Chung, 2008; Juhasz, 2008).¹

The recent turmoil in the international economy underscores a key dilemma for socio-spatial studies of the global oil market: how can we analyse a set of pricing mechanisms shaped by perceptions of future market conditions, heavily influenced by representations of diminishing fossil fuel sources and insecurity in distant sites of extraction? What is the relationship between

¹ Consider the following statements in the business press in 2009: In response to price depression in May: “The drop came after Opec, the oil cartel, warned on Wednesday that oil prices were being driven higher by sentiment, rather than an improvement in the supply and demand fundamentals. ‘Considerable risks remain as oil market fundamentals are far from balanced due to the persistent contraction in demand and growing supply overhang,’ Opec said” (Blas, 2009a). Two weeks later as prices rose to a 6 month high due to OPEC reports of Asian demand, the same journalist reported: “Mr. El-Badri warned that speculative investment was partly to blame for the increase in prices. ‘Speculators are coming back, not only to oil, but to all commodities. We are not happy... and we do not want to see them to be a factor in prices.’ But the Opec secretary-general’s unease about speculators did not appear to be widely shared by other members of the cartel. Some Opec delegates and analysts in Vienna said Saudi Arabia appeared confident that the flow of money into commodities – as investors worry about a pick-up in inflation because low interest rates or a further weakening of the US dollar – would help to support oil prices. Speculative flows, long an OPEC foe, could turn into an ally, they said” (Blas, 2009b).

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oil industry strategy and the broader problematic of deregulated finance that is now under scrutiny? In the context of the current economic crisis trading on commodity futures, particularly oil, would seem a more grounded target for analysis than financial derivatives. As a crucial input into global economic production and trade, the use value of fossil fuels is clearly linked to the material reality of daily reproduction in a form that does not apply to financial instruments (although the financial market collapse was predicated on the tangible asset of people's homes). Indeed, with the financial industry in turmoil in late 2008 (Fletcher, 2008), the Financial Times reported that the oil industry is posed to be a top dividend player on the FTSE, displacing banks (Masters, 2008).

Oil is a particularly salient example of the challenge space poses to capitalism. Commodity futures markets in part address the space–time hurdle posed by guaranteeing delivery of a product, transported at a distance and with a time-lag from the date of production, for consumption at a future date (Cronon, 1991; Bauman, 1998; Mann, 2008). Such conditions are especially significant in the case of oil, given its central role in fuelling production and transportation to market – so-called 'fossil capitalism' (Altvater, 2006). As with financial derivatives generally, pricing on oil futures markets arises from conjecture regarding potential prices.² Future pricing is by definition speculative, and inextricably tied to trader and elite perceptions of projected supply and demand, shaped by business agent and media representations, anticipated public reaction to crisis, and the industrial calculus of security and uncertainty in investment.³ In addition, relations amongst business agents, connected via corporate networks and systems of financial knowledge production (Sinclair, 2000), play a significant part in the socially-constituted value of derivatives.

In principle, the perceptions of business agents are tied to the underlying use value of the natural resource as well as exchange value expressed in prices shaped by supply and demand at the moment of sale. As a crucial input into capitalist production, and one that is territorially fixed, expensive to move, and non-renewable, the use and exchange value of oil are inter-related in a form specific to that commodity's physical properties (cf. Bakker, 2005; Prudham, 2005; Bridge and McManus, 2000). Yet these physical properties have themselves informed socio-political relations surrounding the commodity's extraction. Indeed historically, imperial relations shaped the contemporary global oil trade. Such relations inform a set of contradictions via which nationalized oil parastatals and trans-nationals share similar interests in maintaining higher prices (Mitchell, 2002; Bichler and Nitzan, 2004; Labban, 2008; Spiro, 1999). Mandel describes some of these dynamics:

within the framework of the capitalist world economy the contradiction between use value and exchange value of commodities is expressed in the fact that the increased dependence of imperialism on the raw materials exported by the colonial countries is accompanied by a relative decline in the prices paid for these raw materials and a relative decline in their value. However the long run decline in the terms of trade at the expense of countries exporting primary commodities also results in a relative decline in the rate of profit of the monopolies producing

² I understand price here, roughly, as exchange value abstracted through the money form. While in Marxist theory exchange value (measured in abstract labour time), and price are not strictly equivalent, the point here is to indicate that future prices are an expression of broad estimations regarding prospective (exchange) value of a given commodity – based on supply and demand.

³ Pollard et al. (2008) provide the example of the increase to BP's share price rose to a record high in 2005 following a UK Meteorological prediction of a cold winter (620).

these commodities, as compared with those producing manufactured goods (Mandel, 1972/78, p. 69).⁴

Notions of scarcity and limits alter this context somewhat, in that perceptions of future scarcity in oil markets boost prices, and thus in part address the problem of declining profits. In the tangible economy risk and uncertainty – including the possibility of scarcity – prompt the creation of futures contracts and hedging instruments that increasingly abstract trading from the physical commodity in question. As will be discussed below, futures markets in oil have become highly influential in daily spot pricing due partially to the sheer quantity and monetary value of these trades. In 2003, as underlined by one analyst, trades on two major European futures exchanges amounted to three times the quantity of actual oil produced that same year (Momani, 2008, p. 300; Gulen, 1998).

This article explores the relationship between oil futures markets and the social perceptions that shape them. I argue for the significance of business agent discursive interventions in shaping the social conditions that influence prices. To do so, I contrast two forms of social interpretation of the oil market, one from corporate actors, and the other from academics. Shell Oil's scenarios publications, first, offer an expression of the oil industry's reading of the future and its response to resistance in its operating environment (Jessop, 2004; Cameron and Palan, 2004). Via the Scenarios, Shell has publicly engaged in futures modeling since the 1970s. As the opening citation from Shell's recent Scenarios publication indicates, their modeling process aims to reflect upon and shape "dramatic developments in the global energy system that will emerge in the coming years" (Shell International, 2008, p. 6). Discussed further below, the Scenarios present narratives that facilitate the ongoing growth of their operations and point at solutions to the kinds of resistance they face in key sites of extraction – in this case the Niger Delta and the Canadian Tar Sands (redubbed 'Oil Sands' by industrial operators because the term sounds cleaner).

A second interpretive approach to the oil market comes from socio-spatial and empirical studies concerning energy commodities and financial trading, which stress the rising importance of speculative futures exchanges to oil price volatility over the past two decades. The juxtaposition of the discursive futures presented in oil industry models, exemplified in the Scenarios, versus those focusing on the social constitution of these markets, suggest how strategic, business communications shape the perceptions which constitute global futures markets, while simultaneously concealing the role of deregulated trading in producing that market.

My central claim is that the Shell scenarios serve as a tool for projecting a discursive future that through its very expression intervenes in the social perceptions that condition speculative markets; such speculative markets have increasingly come to determine oil prices in real-time. Thus contemporary oil markets are simultaneously constructed via (i) business agent perceptions of potential supply conditions, as well as (ii) the (use) value of oil. As the key energy source for fossil capitalism (Altvater, 2006; Huber, 2008; Sayer, 1979) the exchange value of the latter, as price – fluctuates widely due to these perceptions. The former partially correspond to oil's speculative worth under financialization, shaped by potential exchange value/price and the employ of futures markets to hedge risks that estimates on prices prove incorrect. Perception is influenced by contending knowledges regarding, among other things, the limits of conventional energy sources, the rise and fall in demand, and actual or potential social resistance to hydrocarbon extraction. Conse-

⁴ While debates concerning the labour theory of value are beyond the scope of this paper (see Nitzan and Bichler, 2009), the significance of technology, and primary resources like oil, to increasing the productivity of labour and thus decreasing the costs of production, are clearly at issue. As Labban points out, the problem of overabundance of a resource is shadowed by its opposite, which may also lead to displacement of that resource over time.

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