Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

By: Emre Alkin

The future of energy is not only an economic matter

I haven't written a comprehensive article about oil in a long time. So, I want to share an evaluation within the framework of rapidly unfolding events.

Oil is one of the vital arteries of the global economy. Instead of creating clichés, we need to analyse developments both from a historical perspective and based on their current impacts.

First, let's recall the major crises associated with oil prices that come to mind. Let's start by acknowledging the deep roots of these events that influence our daily lives and even find their way into songs.

One of the biggest fluctuations in oil history occurred after the 1973 Arab-Israeli War. At that time, OPEC countries limited oil production, causing prices to soar. From about $3 per barrel in 1973, they jumped to $12 in 1974. That's a tripling in just a year. This triggered an inflation explosion worldwide.

Another major shock happened after the 2008 financial crisis. During that summer, oil prices soared to $147 per barrel. This was a real economic nightmare for the largest oil-importing countries like the US and Europe. However, by 2009, prices fell back to around $30, providing a much-needed breather for the global economy. But this relief was short-lived.

Recently, an article in Tomorrow's Affairs reminded us of the challenges faced in 2012 and 2019. During those times, markets experienced volatility triggered by Israeli attacks causing price shocks.

Back then, the US's influence in the region seemed more stable. Today, however, we are in a much more multipolar world with an unpredictable US presidency. We are operating on more fragile ground.

Deeper geopolitical and strategic tensions

Now, let's move on to today. Following reports that Israel may attack Iran's nuclear facilities, we saw a sharp rise in oil prices again.

The price surged to $66 in a short period, and the article in Tomorrow's Affairs warned not to dismiss this as a "short-term market reaction." Clearly, this signals deeper geopolitical and strategic tensions.

> The current situation in oil prices is the result of multiple overlapping risks

According to the analysis, the current situation in oil prices is the result of multiple overlapping risks. For example, the Strait of Hormuz—the critical passage for global oil trade—is highly sensitive. Any intervention in oil tankers there can cause immediate price hikes.

Ship owners, insurers, and traders are already factoring in additional premiums. This alone could serve as a reference point for future shipments and price increases.

Another important aspect: spot prices for oil are continuously rising because investors anticipate potential supply cuts soon. Meanwhile, futures prices are generally low because major players expect the US to act quickly and stabilise the situation.

In fact, this increase in spot prices not only pressures Iran but also exerts additional pressure on the US administration. The US elections are next year, and rising oil prices could negatively impact the Republicans' chances in the middle of Trump's second term.

This situation reveals that not only the threat of military action but also the certainty that conflicts will stay limited to certain regions no longer holds.

Markets feel this and are concerned. This is becoming a larger, more complex, and longer-term stability issue. In other words, the tension around oil prices is likely to escalate further.

Can oil resources trigger conflicts?

Let's now look at the trade side. The world's biggest oil exporters—Saudi Arabia, Russia, and the US—control over 40% of the global oil supply. For example, in 2022, Saudi Arabia produced about 10.5 million barrels daily, earning around $800 billion, roughly 90% of its GDP.

Meanwhile, Japan is the world's largest oil importer. In 2022, it imported about 3.4 million barrels per day, significantly increasing its energy costs.

High oil prices pushed Japan's current account deficit to $28 billion in 2023. We see quite clearly how energy dependence and price increases are linked.

So, can oil resources trigger conflicts? Historically, oil reserves have caused many conflicts. Iraq's 2003 invasion, for example, not only affected Iraq but also influenced global oil prices.

In 2004, disruptions in Iraqi oil flow pushed prices above $50. Venezuela's crisis similarly halved their oil production, pushing prices higher.

> We can't say oil directly causes wars, but it certainly often lies at their core

Another striking example is the Russia-Ukraine war. Starting in early 2022, Western sanctions on Russian oil caused prices to spike to around $120 per barrel.

This event, which sparked the global energy crisis, now threatens international economic stability. We can't say oil directly causes wars, but it certainly often lies at their core.

Many conspiracy theories link conflicts to oil control; however, looking at the Middle East today, we see that the real issue is not just energy but poorly led, reckless regimes.

Leaders struggling domestically tend to ignite conflicts outside their borders. That has historically been the Middle East's main issue.

The future of energy

So, how much longer will we experience tension caused by oil prices?

The potential decrease in future oil consumption could influence the value of these resources.

As countries begin to move away from fossil fuels, the acceleration towards renewable energy sources is becoming more evident.

We have a waiting period of approximately 30 to 50 years to fully avoid the effects of oil price fluctuations - Emre Alkin

For example, in 2022, the global solar energy capacity reached 1.2 terawatts. This is a significant step towards reducing energy dependence and offering environmentally friendly alternatives.

However, it appears we have a waiting period of approximately 30 to 50 years to fully avoid the effects of oil price fluctuations.

Throughout history, oil prices have been accompanied by wars, crises, and economic impacts. But this process is not limited to economic data alone; it also constitutes a complex structure that shapes international relations.

Ultimately, the volatility of oil prices causes economic fluctuations in many countries worldwide. Future energy policies must be managed collaboratively, focusing on efficiency and sustainability.

Therefore, tracking this issue should go beyond just economic figures; it needs to be evaluated from a global perspective. The future of energy is not only an economic matter but also a critical component of peace and stability.