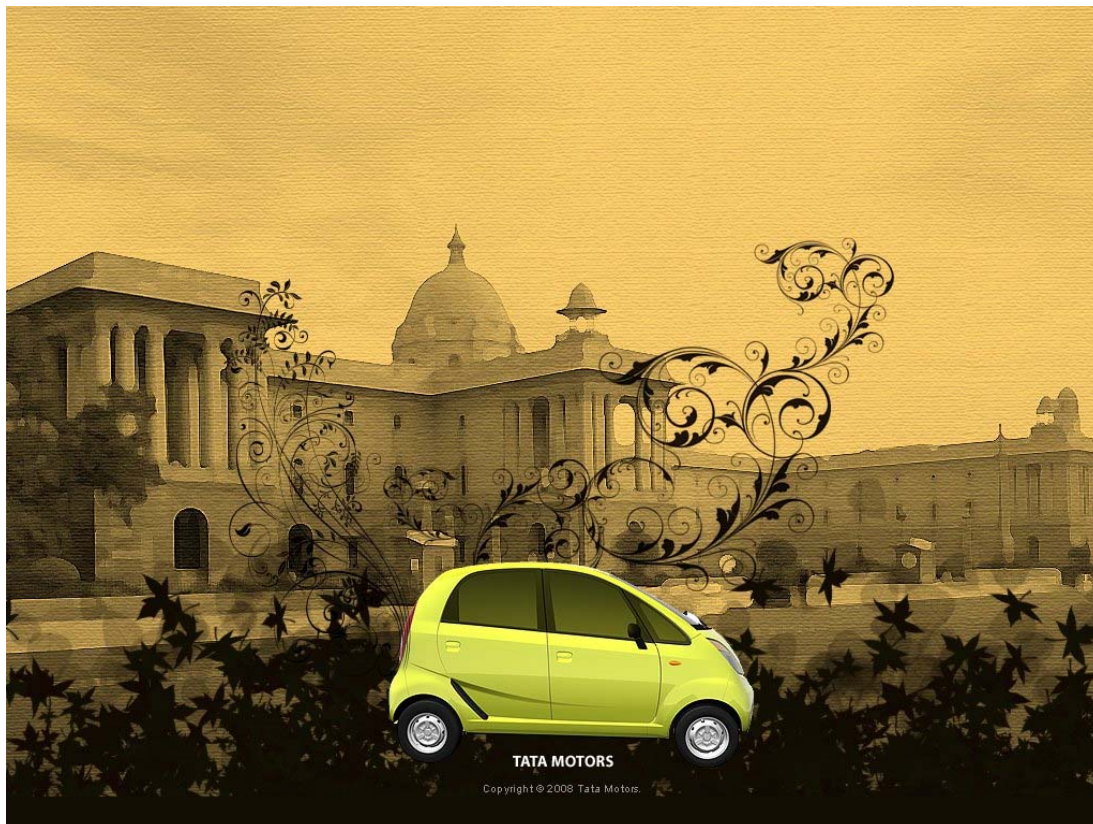


## The Restructuring of Global Oil Demand

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The global financial crisis may be hastening a process that's been underway the entire decade: the restructuring of global oil demand. Western OECD oil demand has been much slower the past 15 years and its growth *rate* started to stall out again as early as 2004. The more spectacular leg of the advance in the price of oil was therefore built in large part on non-OECD demand. Of course. While this looks like a tidy and easy-to-read set of circumstances, however, it's actually a bit more complicated than merely splitting the world in two.

Now, at the risk of wading into an imperfect or confining analogy, I want readers to recall the *leapfrog* phenomenon that so aptly characterized the first uptake of mobile phones in the developing world. Instead of building out switching stations and miles of telephone poles, companies built towers—and then sold handsets. Users were then able to *get a piece* of the miracle of telephony, without having to bear so much of the cost for the old installed base of wires and buildings. Today, this structurally different relationship to airtime is now being replicated in the way a new user of oil *comes online*, in the developing world.



What we see therefore is that the way in which oil is still used in western OECD nations tends to recapitulate, each day, the entire history of the oil age. In other words, we are burdened in the West by the legacy of Plenty. Whereas the new user of oil in the world is liberated by the more recent age of oil Scarcity. In the West we carry on amidst the old architecture of superhighways,

long commutes, and two car families. We are the rotary telephone users in a new age of oil, lugging around heavy black handsets and losing contact when wires are felled during storms. In the developing world, meanwhile, a single gallon of petrol is a life-changer when poured into any high-mileage vehicle. The developing world is marked by enormous populations in densely packed mega cities. Adding just 50 miles a week of motorized commuting to an individual's or a family's lifestyle here is nothing less than transformational.

What's exciting, and what's also rather daunting, about this transformation is that I don't think the world en masse really understands this new line of demarcation. Instead, the intellectual West continues to either naval-gaze about its own vulnerability in this new world of oil scarcity-or- it monolithically projects this predicament when trying to understand the developing world. As a result, the West neither sees its deeply embedded leverage to the price of oil, nor the rest of the world's emerging ability to take *just a piece* of oil's concentrated power. A little oil goes a long way.

So what we are faced with here are two very different *topographies*, of oil demand. In the West the individual remains very exposed, very leveraged to oil in a kind of vertical structure. Changes in the price of oil, especially above 100 dollars a barrel, exert tremendous pressure on his lifestyle. But in the developing world, the topography of oil use is flatter. The new Tata car, which I only use as a recent example of the kind of organic response Asia has made in motorized transport, will likely get 60 miles to the gallon. Does it really matter if petrol is 4.00 USD or 8.00 USD per gallon, if you have raised your lifestyle enough to commute 4-5 miles a day by car? No, it does not. And therein lies the opportunity for the individual, but a new problem for the world.

The problem is that the developing world is *where all the people are*. In addition, it's the topography where all the *new* oil users are. And in that world, the horse-power and man-power equivalents to a barrel of oil's 5.8 million BTU are nowhere near to alignment. Here, men are undervalued to the price of oil—in a world where oil remains undervalued. The tipping point has come. What this portion of humanity will prove to the world is that the miracle energy substance *known as oil* contains so much concentrated power, that they will both be willing and able in the aggregate to take the price of oil to its final destination.

-Gregor