The exceptional price performance of Oil – Explanations and Prospects

Oil price developments over the past 45 years have been truly spectacular. In constant money, prices rose by 759% between 1970–1972 and 2012–2014. This can be compared with a price index for metals and minerals, which increased by a mere 38%. Analysis shows that the exceptionality of oil's upward price push over the past decades cannot be adequately explained by cost-raising depletion or by OPEC interventions. The better explanation is an inadequate development of production capacity, caused by above-ground hurdles; e.g. onerous fiscal regimes and conflicts over resource rents. Despite past experience, a turning point has been reached where scarcity, uncertain supply and high prices will be replaced by abundance, undisturbed availability and suppressed price levels. Technical advances in drilling and hydraulic fracturing, which led to fast rising oil and natural gas production in the US but is also applicable to unconventional and conventional formations worldwide, will assure ample and diversified future supply. Although short-run price spikes may occur, oil prices are unlikely to prevail above the total production costs of new supplies, which are estimated to settle at $40–60/barrel in the coming two decades. Expanding global gas output and trade will likely depress gas prices as well. It is concluded that oil and gas will continue to play an important role in satisfying energy demand, from Asia to the Americas, with innovation that will allow for economic production in spite of low prices.

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