



Oil in parallax: Scarcity, markets, and the financialization of accumulation

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ABSTRACT

Relations between oil scarcity, production, investment, and price have become increasingly mediated and shaped by financial markets. Yet, the mediation of finance is absent in peak oil narratives, which posit a direct relation between the availability of oil in the ground and its price on the market. The orthodox critique of peak oil deconstructs its basis in geological limits only to reproduce the argument from scarcity and reverse the relationship between the price of oil and its availability on the market. Both narratives are formulated in physical space and do not account for the degree to which the oil market has become infused by the logic of finance. Critical political economy, on the other hand, demonstrates the extent to which finance has transformed capital accumulation, only to render material production somewhat irrelevant to the accumulation of capital. This is equally problematic, given oil companies' continuing investment in production and reserve expansion. The relation between accumulation, investment, and production under finance needs to be examined rather than discarded. I argue that finance has emancipated the circulation of oil in the world market from its circulation in physical space, fragmenting the oil market into a physical and a financial component, but reintegrating both under the dominance of financial logic without transcending their duality and their differences. I explicate this relation by examining the circulation of oil in trade and investment under the dictates of finance to open questions on current theorizations of oil scarcity in relation to prices, markets, and investment.

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On 14 May 2008, 518,053 Brent Crude futures contracts exchanged hands on the IntercontinentalExchange (ICE), an equivalent of approximately 518 million barrels of oil.¹ May 2008 marked the peak of an oil boom, culminating in record high prices of \$147 per barrel (bbl) at the beginning of July. Goldman Sachs, the largest commodity trader on Wall Street, predicted an average oil price of \$141/bbl for the second half of 2008 and a price of \$200/bbl by the end of the year. The rise of oil price signaled to some analysts a looming crisis. Unlike the crises of the 1970s, this one promised to be long-lasting since it was reasoned to be largely the result of substantial depletion of major oilfields. Oil was 'past its peak', declared one commentator; about half the oil reserves deposited in the ground are gone and oil production will soon enter an 'irreversible decline' (Klare, 2008). Oil production did indeed decline, from a peak of 86.6 million barrels per day (bbl/d) in July to around 83.8 million bbl/d in March 2009, but this was due to an equivalent decline in global demand. In fact, world proven oil reserves continued to grow, adding more than 25 billion barrels between the end of 2007 and the middle of 2009. By the end of 2008, oil was trading at a spot price of around \$30/bbl (23 December), before it started rising again soon after despite continued decline in global demand. Clearly, the price of oil was moving independently from its physical

availability on the market or in the ground. There was something fundamentally different between the 500 million barrels traded daily on the ICE and the 85 million barrels circulating in the physical space of reservoirs, production platforms, pipelines, tankers, loading docks, and refineries, before they were finally burnt in one way or another.

Since the introduction of oil futures on the New York Mercantile Exchange (Nymex) in 1983, oil has come to circulate simultaneously through international exchange markets centered on Wall Street, London, Singapore and Tokyo as much as through the vast physical infrastructure that covers the globe. Yet, this significant aspect of the oil market is conspicuously absent from peak oil theses and their derivatives such as 'resource wars' narratives (See Klare, 2001, 2004; Peters, 2004; Heinberg, 2006; Renner, 2006; Elhefnawy, 2008; Bardi, 2009.) This lack is reproduced to a lesser extent in the critique of peak oil by orthodox energy economists, particularly in the (immediate and linear) relation construed between oil price and investment in production and reserve expansion. The fact of scarcity from this standpoint is immaterial: both 'peakists' and their detractors agree about an imminent scarcity of oil, although they explain it differently and draw different implications from its potential causes. The difference between peakists and the orthodox critics resides in how they mobilize scarcity in constructing arguments about markets, oil price, and the movement of oil capital. For peakists, scarcity of oil in nature is the cause

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¹ Throughout, oil refers to crude oil.

of imminent decline in production expressed in rising and more volatile market prices, leading ultimately to the end of the free market as oil consumers resort to mercantilist and potentially military and other non-market means to secure the last economically and geologically extractable oil. For the detractors, the same elements are rearranged differently to produce an argument with different implications: scarcity is the result of erosion of market practices (through nationalization of the oil industry and state-to-state deals) and low market prices, which led to decline in investment in the upstream sector and the contraction of production capacity. The recent surge in oil price is accordingly the effect of a lag in production capacity behind surging market demand—scarcity of oil in the market—which can be remedied by the removal of barriers to capital expansion as long as prices remain high (and volatility low) enough to induce investment.²

Both arguments are deeply flawed because they omit the effect of the financialization of oil trade and investment on the production and circulation of oil. I propose a third argument that severs the direct causal relation between price, investment and the physical supply of oil. I argue that the availability of physical supplies has no direct bearing on the price of oil and that a high market price does not automatically induce investment in exploration and production capacity. The relations between price, investment and production have been transformed by the financialization of trade and investment in oil: more oil is traded in financial markets than in spot markets, while major oil companies have increasingly turned towards financial markets for shorter term returns on their investments. This is not to argue that trade and investment in production have ceased, but that those have acquired a different *form* under the dictates of finance.

Financialization liberated the circulation (i.e. expansion) of value from material production and exchange at the same time that it brought the production of value and its realization in exchange under the dominance of financial logic. Rather than eliminating the necessity of producing and realizing value in material production and exchange, financialization brought to the fore the antinomy that Marx recognized between the conditions for the production of value and the conditions for its realization in exchange. For Marx, the exchange of commodities creates no value, but value can only be realized in exchange. This is what Karatani (2003), reading Kant and Marx, calls a 'pronounced parallax', the objectivity that is exposed through the displacement or incessant transposition between multiple representations of an object. Value on this reading is relational, not substantial; value, produced in the labor process, comes to existence in the relation among commodities in exchange. Value, therefore, has its origin both in circulation and not in circulation (see also Žižek, 2004a). The realization of value is accomplished in the *salto mortale* (leap of faith) of the commodity, when the commodity is sold, thus completing the circulation process $M-C-M'$. Credit, obtained on capital and stock exchange markets, presupposes the realization of value before exchange (or even production) takes place, although there is no guarantee that the exchange will happen and that, if it happens, it will realize profit. This is what Žižek, drawing on Karatani, refers to as 'temporal parallax': the actualization, at different levels, of events and processes that 'cannot occur at the same historical moment' (Žižek, 2006: 32; see also Žižek, 2004b).

The temporal displacement of the future realization of value into the present, however, is essentially also spatial. I extend the argument to space, therefore, and propose a space-time parallax. As Marx (1978) reasoned in the second volume of *Capital*, through the exchange market commodities and fixed assets can circulate as titles to property, without the assets they represent ever changing place.

Thus, not only does the exchange market overcome the separation of production and exchange in time and space, but it also separates space into one space where capital reproduces itself in the circulation of titles to property as pure money-making, outside and without the mediation of material production and exchange, and another space in which the production process, including material exchange, must still take place as the 'unavoidable middle term, a necessary evil for the purpose of money-making' (Marx, 1978, p. 137). In one space capital (value) circulates as $M-C-M'$; in another, capital circulates as $M-M'-M'$. . . , on the assumption that C in the former will successfully perform the *salto mortale* into M' at some time and some place. These are two sides of one process, the process of accumulation, which, although they are linked, cannot share the same space because of their different materiality and temporality.

Introducing financial logic to the study of oil engenders a space-time parallax between oil's representation as a physical commodity circulating in physical (and financial) markets and its representation as a financial asset circulating in financial (and physical) markets. This is not a dualism between a 'real' space-time of material circulation and a 'fictitious' space-time of financial representations. Both are real enough and have their own materiality, but each alone is an abstraction incapable of standing in for the oil market, whose objectivity is produced from the incessant displacement between two space-times of circulation. The aim of this paper is to examine the oscillation between physical and financial flows of oil to open questions on conceptualizations of oil scarcity in relation to the movement of market price and the dynamics of investment. In the following, I first present a synopsis of the peak oil argument followed by a synopsis of the orthodox critique. Then, I examine the effects of financialization on oil trade and on investment in oil production. The conclusion reflects briefly on the meaning of oil crisis under finance.

1. Peak oil and the fate of industrial capitalism

'The world is not running out of oil—at least not yet. What our society does face, and soon, is the end of the abundant and cheap oil on which all industrial nations depend'.³

'It is difficult to think of any aspect of modern life. . . that does not depend upon [abundant and cheap oil]. Its depletion is therefore an immensely important subject. The beginning of wisdom concerning this subject is that, despite standard usage, we do not *produce* oil, we *extract* it. This circumstance alone implies *immutable* facts about the situation at hand. . .'.⁴

The foundational assumption of peak oil theses is that an inevitable decline in oil production, and ultimately its cessation, derives from the absolute geological finiteness of oil reserves. Exhaustion of oil resources depends on the size of ultimate recoverable reserves (URR), the rate of their depletion and on the economic and technological viability of their extraction. Oil production will peak when half a reservoir is extracted and will cease when the energy needed for the extraction of the remaining oil exceeds the energy derived from burning it, not when it is completely drained. In monetary terms, oil production will cease when the cost of extraction of oil exceeds its market value (price). A rise in oil price accompanied by decline in investment is therefore a sign of imminent reserve depletion and impending oil scarcity.

The actual size of available and recoverable oil reserves, however, is quite difficult to determine. State-owned and publicly-traded oil companies often distort their assets, inflating the size of their reserves to attract foreign investment, as in the case of the Cas-

² For an extended critique of this argument, see Labban, forthcoming.

³ Campbell and Laherrère (1998).

⁴ Campbell, 1998.

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