

'Peak Oil' and the German Government

Military Study Warns of a Potentially Drastic Oil Crisis

By *Stefan Schultz*

A study by a German military think tank has analyzed how "peak oil" might change the global economy. The internal draft document -- leaked on the Internet -- shows for the first time how carefully the German government has considered a potential energy crisis.

The term "peak oil" is used by energy experts to refer to a point in time when global oil reserves pass their zenith and production gradually begins to decline. This would result in a permanent supply crisis -- and fear of it can trigger turbulence in commodity markets and on stock exchanges.

The issue is so politically explosive that it's remarkable when an institution like the Bundeswehr, the German military, uses the term "peak oil" at all. But a military study currently circulating on the German blogosphere goes even further.

The study is a product of the Future Analysis department of the Bundeswehr Transformation Center, a think tank tasked with fixing a direction for the German military. The team of authors, led by Lieutenant Colonel Thomas Will, uses sometimes-dramatic language to depict the consequences of an irreversible depletion of raw materials. It warns of shifts in the global balance of power, of the formation of new relationships based on interdependency, of a decline in importance of the western industrial nations, of the "total collapse of the markets" and of serious political and economic crises.

The study, whose authenticity was confirmed to SPIEGEL ONLINE by sources in government circles, was not meant for publication. The document is said to be in draft stage and to consist solely of scientific opinion, which has not yet been edited by the Defense Ministry and other government bodies.

The lead author, Will, has declined to comment on the study. It remains doubtful that either the Bundeswehr or the German government would have consented to publish the document in its current form. But the study does show how intensively the German government has engaged with the question of peak oil.

Parallels to activities in the UK

The leak has parallels with recent reports from the UK. Only last week the *Guardian* newspaper reported that the British Department of Energy and Climate Change (DECC) is keeping documents secret which show the UK government is far more concerned about an impending supply crisis than it cares to admit.

According to the *Guardian*, the DECC, the Bank of England and the British Ministry of Defence are working alongside industry representatives to develop a crisis plan to deal with possible shortfalls in energy supply. Inquiries made by Britain's so-called peak oil workshops to energy experts have been seen by SPIEGEL ONLINE. A DECC spokeswoman sought to play down the process, telling the *Guardian* the enquiries were "routine" and had no political implications.

The Bundeswehr study may not have immediate political consequences, either, but it shows that the German government fears shortages could quickly arise.

A Litany of Market Failures

According to the German report, there is "some probability that peak oil will occur around the year 2010 and that the impact on security is expected to be felt 15 to 30 years later." The Bundeswehr prediction is consistent with those of well-known scientists who assume global oil production has either already passed its peak or will do so this year.

Market Failures and International Chain Reactions

The political and economic impacts of peak oil on Germany have now been studied for the first time in depth. The crude oil expert Steffen Bukold has evaluated and summarized the findings of the Bundeswehr study. Here is an overview of the central points:

- **Oil will determine power:** The Bundeswehr Transformation Center writes that oil will become

one decisive factor in determining the new landscape of international relations: "The relative importance of the oil-producing nations in the international system is growing. These nations are using the advantages resulting from this to expand the scope of their domestic and foreign policies and establish themselves as a new or resurgent regional, or in some cases even global leading powers."

- **Increasing importance of oil exporters:** For importers of oil more competition for resources will mean an increase in the number of nations competing for favor with oil-producing nations. For the latter this opens up a window of opportunity which can be used to implement political, economic or ideological aims. As this window of time will only be open for a limited period, "this could result in a more aggressive assertion of national interests on the part of the oil-producing nations."
- **Politics in place of the market:** The Bundeswehr Transformation Center expects that a supply crisis would roll back the liberalization of the energy market. "The proportion of oil traded on the global, freely accessible oil market will diminish as more oil is traded through bi-national contracts," the study states. In the long run, the study goes on, the global oil market, will only be able to follow the laws of the free market in a restricted way. "Bilateral, conditioned supply agreements and privileged partnerships, such as those seen prior to the oil crises of the 1970s, will once again come to the fore."
- **Market failures:** The authors paint a bleak picture of the consequences resulting from a shortage of petroleum. As the transportation of goods depends on crude oil, international trade could be subject to colossal tax hikes. "Shortages in the supply of vital goods could arise" as a result, for example in food supplies. Oil is used directly or indirectly in the production of 95 percent of all industrial goods. Price shocks could therefore be seen in almost any industry and throughout all stages of the industrial supply chain. "In the medium term the global economic system and every market-oriented national economy would collapse."
- **Relapse into planned economy:** Since virtually all economic sectors rely heavily on oil, peak oil could lead to a "partial or complete failure of markets," says the study. "A conceivable alternative would be government rationing and the allocation of important goods or the setting of production schedules and other short-term coercive measures to replace market-based mechanisms in times of crisis."
- **Global chain reaction:** "A restructuring of oil supplies will not be equally possible in all regions before the onset of peak oil," says the study. "It is likely that a large number of states will not be in a position to make the necessary investments in time," or with "sufficient magnitude." If there were economic crashes in some regions of the world, Germany could be affected. Germany would not escape the crises of other countries, because it's so tightly integrated into the global economy.
- **Crisis of political legitimacy:** The Bundeswehr study also raises fears for the survival of democracy itself. Parts of the population could perceive the upheaval triggered by peak oil "as a general systemic crisis." This would create "room for ideological and extremist alternatives to existing forms of government." Fragmentation of the affected population is likely and could "in extreme cases lead to open conflict."

The scenarios outlined by the Bundeswehr Transformation Center are drastic. Even more explosive politically are recommendations to the government that the energy experts have put forward based on these scenarios. They argue that "states dependent on oil imports" will be forced to "show more pragmatism toward oil-producing states in their foreign policy." Political priorities will have to be somewhat subordinated, they claim, to the overriding concern of securing energy supplies.

For example: Germany would have to be more flexible in relation toward Russia's foreign policy objectives. It would also have to show more restraint in its foreign policy toward Israel, to avoid alienating Arab oil-producing nations. Unconditional support for Israel and its right to exist is currently a cornerstone of German foreign policy.

The relationship with Russia, in particular, is of fundamental importance for German access to oil and gas, the study says. "For Germany, this involves a balancing act between stable and privileged relations with Russia and the sensitivities of (Germany's) eastern neighbors." In other words, Germany, if it wants to guarantee its own energy security, should be accommodating in relation to Moscow's foreign policy objectives, even if it means risking damage to its relations with Poland and other Eastern European states.

Peak oil would also have profound consequences for Berlin's posture toward the Middle East, according to the study. "A readjustment of Germany's Middle East policy ... in favor of more intensive relations with producer countries such as Iran and Saudi Arabia, which have the largest conventional oil reserves in the region, might put a strain on German-Israeli relations, depending on the intensity of the policy change," the authors write.

When contacted by SPIEGEL ONLINE, the Defense Ministry declined to comment on the study.

URL:

<http://www.spiegel.de/international/germany/0,1518,715138,00.html>

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