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# The Opportunity in OPEC's Twilight

Remember the villainous oil cartel of the 1970s that embargoed petroleum sales and quadrupled the price of crude? Forty years later, oil prices are at historical lows in real terms. The failure to reach agreement at last weekend's meeting in Doha among key members of OPEC—as well as another major oil producer, Russia—to finally curtail many months of extraordinarily high levels of output, reflects poorly on the prospects for the exercise of global market power that once dominated the oil sector.
Should OPEC continue to fade from view, what opportunities is the world economy afforded?

While not dead, OPEC is certainly limping, and with oil prices unlikely to rise significantly anytime soon, it could be on life support. This is especially so if there is further softening of demand and unwillingness of producers to not curtail supply. These are knotty structural factors, not short-term episodic shocks.

Global demand for oil is not expected to grow much. There are multiple, well-known reasons why: think China's, Japan's and Europe's economic woes, which are far more severe than conventionally thought.

But there are also other, less publicized drivers of the world's diminished appetite for oil. For one, technological advances in electric cars keep occurring and are coming to market at an accelerated pace. In addition, the significant press attention given to last December's Paris Agreement on the need for curbing global warming sensitized the public to the accumulating evidence and the risks.

There are corresponding factors on the supply side. Vladimir Putin's economy is as dependent on oil revenues as was the case at the time of the demise of the Soviet Union. This is not going to change any time soon. And despite the Saudi's astounding acknowledgment of a significant budget deficit, precisely at a time when there are greater calls for domestic reform, the Kingdom will continue to maintain its high level of production.

Then there is of course the historic, meteoric rejuvenation of the North American oil patch. While lower prices are forcing marginal producers to cutback, the overturning of the woefully obsolete 40-year old U.S. ban on crude oil exports has infused more oxygen into U.S. petroleum production.

Governance problems within other oil producing countries also figure in prominently, including Venezuela, where political infighting over management of a post-Chavez economy and political system is intense; Brazil, where Petrobras remains at the center of a huge corruption scandal, Dilma Rousseff is in the midst of an impeachment process, and the economy is in free-fall; and Libya, where it is not only a "failed state" but actually a "missing state".

So, how should the world's businesses and consumers process all of this? OPEC's twilight presents the global economy with a unique opportunity to transition our energy sources and transform infrastructure.

To this end, in February, President Obama proposed a $10 "oil tax" to fund a cleaner transportation system. The thinking is right, but this was poorly conceived and even more poorly packaged. Instead, governments should collect a 'premium' for each unit of fossil fuel produced and consumed—not just oil. Why sell this to the public not as a 'tax'? Because it is in fact an insurance premium to protect our—and our children's—energy and environmental future, much like what we currently pay to insure against our sickness and damage to our homes.

Not only would this 'premium' create an institutionalized incentive to systematically wean ourselves off of energy sources that pose substantial environmental risks to generations that follow us, it would also generate revenue for public-private partnerships for urban mass transport infrastructure as well as new infrastructure for the production and distribution of non-fossil fuel energy sources that such a charge would stimulate. It would also reduce traffic congestion and needlessly lost time, thus helping to raise our economies' productivity. And in the services sectors, among others, it would encourage working remotely, including from home, which would strengthen our family ties and conceivably curb the rapid trend toward giant urban centers and all the ills that they engender.

Why introduce such a charge now? With oil prices extraordinarily low, this is precisely the time—maybe even a once-in-a-lifetime opportunity—to ease in such a policy. And the premium charge could be structured in a graduated fashion to take into account any future oil price increases or decreases.

This 'premium' concept is similar to proposals made in the 1980s to impose a surcharge on oil imports to lessen our exposure to the energy security risks posed by OPEC, stimulate domestic energy production, and help finance Strategic Petroleum Reserves of oil to cushion the deleterious effects of future price shocks.

Will it happen? Hopefully so. But precisely because it is so sensible, it may well not.