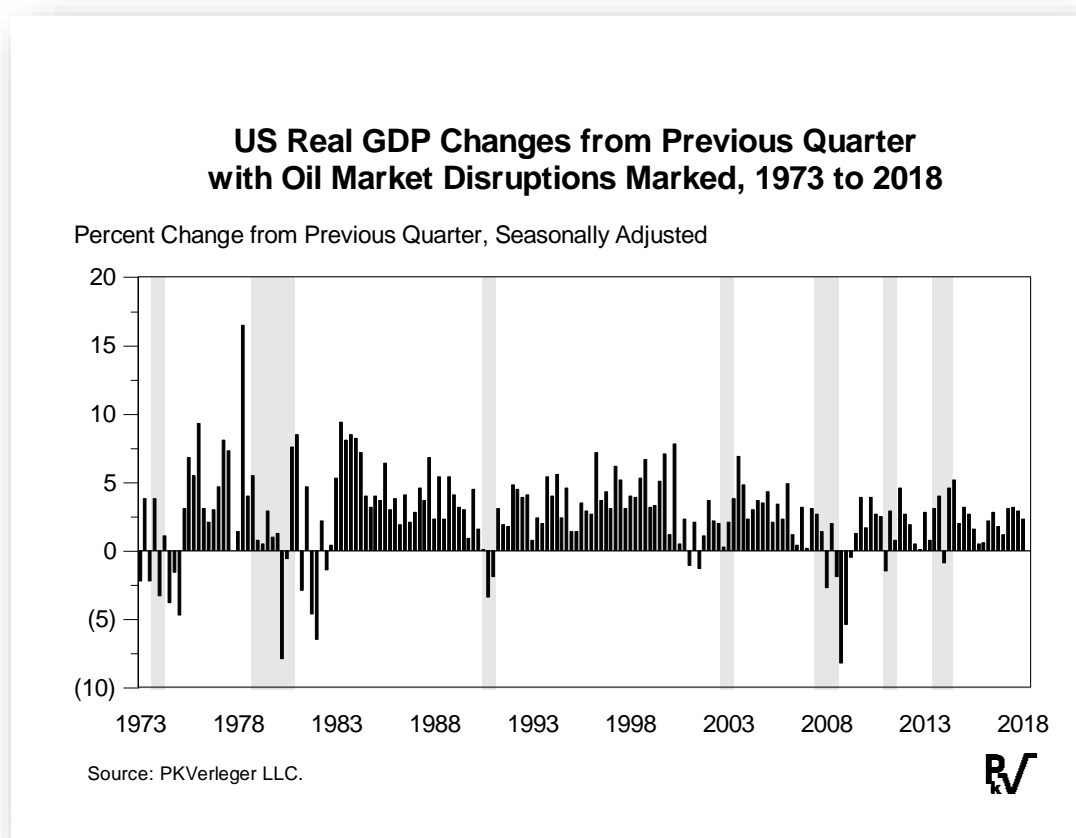


\$200 Crude, the Economic Crisis of 2020, and Policies to Prevent Catastrophe



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Summary

The global economy will face collapse in twelve to eighteen months, a downturn worse than the Great Recession of 2008. What's coming could even rival the Great Depression of the 1930s.

Catastrophically high oil prices will cause the impending recession. The world oil market will see prices at least double. The increase could be much larger. A price of \$400 crude is not out of the question. US voters may go to the polls in November 2020 with gasoline and diesel selling for three to six times as much as in November 2016.

This looming economic crisis has not been anticipated to date by any major economic forecaster. No one has noted the coming high oil prices. No one has predicted the economic consequences. But then few foresaw prices doubling from \$70 to \$140 per barrel in 2008¹, and no forecaster predicted the Great Recession in January 2008.

The approaching economic troubles could be dodged, just as the Great Recession might have been avoided in early 2008 if Lehman Brothers had been saved. To borrow an analogy from history, the global economy today is moving toward an unseen calamity, just as the *RMS Titanic* sailed toward an iceberg in 1912. A minor course correction would have saved the *Titanic*. The approaching economic ills could be avoided in the same manner.

The rise in oil prices from \$70 to possibly \$400 per barrel will be driven by three forces: the collapse of Venezuelan oil production, the reinstatement of sanctions on Iran, and the International Maritime Organization's sulfur-content regulation on marine bunker fuel, the oil that powers ships at sea. The IMO rule poses the greatest threat. Absent changes, a 2020 collision with the economic iceberg is certain.

The paper that follows, which has not been formatted in the *PEM* style, is being distributed to clients as the April/May issue of *The Petroleum Economics Monthly*. We apologize for the delay. The analysis of the impacts of the pending IMO regulation is exceedingly complex. It involves understanding refining, producer behavior, market interactions, and macroeconomics. Here, we have tried to pull the analysis together into a compact, comprehensible form.

Given the magnitude of the harmful global economic impacts described here, this report will almost certainly not be our last word on the topic.

¹ For the record, the author has published two articles on this subject in *The International Economy*. "Why Oil Could Go to \$50/bbl" was published in the Fall 2004 issue. "Hundred Dollar Oil, Five Percent Inflation, and the Coming Recession" appeared in the Winter 2006 issue. Both were widely ignored.