

# The Great Simplification

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Nate Hagens (00:00):

Greetings. Shalom. Salaam. Jambo Habari. Dobroye Utro. Dajai Hao. The ways to greet people around the world. We are all part of a single species, though we are part of different cultures and different nation-states. Today I would like to take a high-altitude apolitical view of the Israel-Iran situation because it affects all of us. And of course politics is involved, and there are very easy social minefields that can be triggered. I want to focus on one thing, which is the Strait of Hormuz and how much of the world's petrochemicals, oil, and refined products travel through the Straits on a daily basis. I'm doing this without notes because in a few hours I have to leave to go visit my father, who, in a surprise visit, though by the time this comes out Friday, it will no longer be a surprise, he is going on a glory flight. He's 82 years old, and he was a medic in the Vietnam War in the US Army.

(01:24):

And apparently, they have a thing where they honor veterans by flying to Washington DC and they go to see war memorials and have lunch, and then they come back and there's a massive surprise parade and thousands of people at the airport with a band welcoming them. And I think back when he was in the war, and he told me very unpleasant stories and has left much unsaid than he actually did tell me as a young boy or as a teenager, that was an honorable thing. And I think war is now... War connects all of the complexity of our society, and we have a global society now. So it's not North versus South Vietnam, or North versus South Korea. It's a unipolar world versus a multipolar world. And the reason I keep bringing this up is I think we have to de-escalate and de-conflict somehow in the two arenas, the Middle East and Ukraine and Russia, if we're going to have a chance at solving or mitigating many of the social, environmental, energy, governance challenges we have.

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So here's a brief reflection on the Iran situation. I can't believe I have to exculpate what I'm about to say, but what I'm about to say, it may come across as more pro-Iranian than the general view. I am not an Iran apologist, neither am I a Russia apologist. I'm an apologist for a continuation of complex life and stabilization of global society. And so when I see risks that could upset the entire applecart and put us into chaos, I like to share my thoughts on those.

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So as many followers of this podcast are aware, oil is not just worth its \$80 per barrel price, oil is the spice to use a Dune analogy of the modern Earth society of hominids. Oil is ubiquitous, it's liquid at room temperature. It has incredible energy density. We use around 100 million barrels of oil per day, which translates into a hundred billion plus labor equivalents of humans in combination with machines. Of the hundred million barrels, only around 85 million barrels are actually oil. The rest is things that we label as oil, but don't have the chemical or energy properties, such as corn ethanol, biodiesel, natural gas plant liquids, ethane, that Art Berman has gone into on previous podcasts. Of the 85 million barrels of oil, around 40 million barrels is available for purchase in the international markets, meaning that the other 45 million barrels, over half, is consumed internally in the countries like Saudi Arabia, Russia, the United States, so that a much smaller portion of the total oil that's extracted is available for export, less than half.

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Of that 40 million barrels, almost half of it a couple of years ago is my most recent data, around 17 million barrels of oil passes through the coast of Iran in the Strait of Hormuz on a daily basis. So if any eventuality would cause Iran to have their backs against a hard place and desperate and were forced to take extreme measures, they could announce a cessation of allowing ships to navigate in the Straits of Hormuz. Furthermore, they have approximately a hundred thousand built and stored submarine mines that they could put in the Strait that in case a ship would run into it, it would explode and sink. They have lots of short-range missiles that could shoot at tankers. Yes, the West is acutely aware of all of these things, and we have demining ships that if there was such an episode, we would send these ships in and they would defuse or take the mines out of the water. But that is a process and it's complicated and there would be of course, crossfire and people trying to disrupt it.

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The point is 17 million barrels, or even a fraction of that cut off from being the hemoglobin transporting goods and services around the world would be an unmitigated financial and economic disaster for our society. We've talked a lot about the complexity of supply chains and the just-in-time delivery of parts and the tenuousness of the global financial system where we continue to print claims on our biophysical reality where the biophysical reality is the same or flat or maybe slightly increasing or decreasing. This would be catastrophic. Now, in a game theoretic world

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where people make rational decisions, no one would allow Iran to get to that point where they would choose to or have to close the Strait of Hormuz. However, I think increasingly, there are factions within leading governments of the world that are absolutely non-rational, one might use the word fanatic. As early as last week we had at least two standing senators in the US, Lindsey Graham, John Cornyn, saying, "Bomb Iran, bomb, target, Tehran."

(08:23):

I don't know if they realize the things I've just said, or it's possible they are just hubristic enough to believe that, "Oh, that's okay. We can overcome any short-term problem. We have plenty of oil. This would help the United States position in the world because it would weaken China and other places." Yes, so this evolutionary dynamic of spite by making our situation worse, but making everyone else's situation much worse, is prevalent in some people's minds. So I worry about the hubris and delusion, not of our governments in the world as a whole, but in very vocal, fanatical factions of the government. There is, and I hate to delve into religion even more than I hate to even mention politics, there is a religious component to all this as well. Evangelical Christians believe that the rapture, the second coming of Christ, first requires Israel to regain the original boundaries of its territory that were mentioned in the Bible, Judea and Sumeria, and the third temple needs to be built.

(09:46):

Zionists from a secular standpoint, believe that the king of David, the return of global power for Israel happens once Israel is restored to its global power and hegemony. So there is a religious component to the decisions being made in Israel and the United States. So I don't expect the Strait of Hormuz to be closed anytime soon. I'm just offering the possibility that this is way more important and way more dangerous to our world than people expect. Not only would it be a financial disaster to the US dollar and to the financial system that I mentioned, but it would absolutely cripple many of the countries in the global south that are completely dependent on oil imports. South Africa, Mauritania, Morocco, I'm just listing a few off the top of my head. Europe is not the Global South, but Europe is completely reliant on energy now from the Middle East, especially since the Russia tap has been reduced.

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Here's the other thing. If we think about a post Great Simplification world, 20 or 30 years from now, where the United States and other nations around the world still use

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a lot of oil, that oil is residing in the countries that we are at war with. Iran and Iraq are probably... And Russia, but Iran and Iraq especially are the countries that still have untapped reserves and could do more exploration. Saudi Arabia, not so much unless maybe they do some shale. That has been largely explored. Iran and Iraq are the places where there's real excess capacity for many, many decades ahead. So this whole geopolitical game of RISK, the capital R, capital I, capital S, capital K. And that's about all I wanted to say is I don't think people are recognizing the centrality of the commodity of oil in our world and the centrality of the fact that two-thirds of the remaining oil in the world lies under the sand around a 700 mile radius from Israel, and that these things are massively important.

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I think I've said enough on this. I will talk to you next week hopefully with an Earth Day message and peace to everyone.