

Playing the Oil Endgame

Oil producers and the geopolitics of declining demand

EXECUTIVE SUMMARY

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The oil era is not ending quietly. There is a broad consensus across governments, industry and market outlooks that global oil demand will plateau or peak between 2030 and 2035, even if the pace and shape of that shift remain uncertain. The prospect of falling oil demand brings risks that countries worldwide are not yet acknowledging or preparing for. Declining revenues for exporter countries can easily lead to global volatility: with producer governments misreading demand signals, markets pricing short-term barrels while underpricing long-term fragility, and fiscal stress spilling into regional instability and geopolitical bargaining. Oil-dependent economies are likely to become more strategic, but also more vulnerable. This will in turn affect importer economies financially and geopolitically, with the major risks arising from disorder in the transition, rather than the rate at which demand declines. Managing these risks will be one of the defining challenges of the coming decades.

Download our full report, *Playing the Oil Endgame: Oil producers and the geopolitics of declining demand*, published September 2026, from <https://www.e3g.org/publications/oil-endgame-geopolitics-declining-demand/>

The global oil system is entering its endgame: a period of structural transition as demand weakens, becomes more concentrated and harder to predict. The drivers that pushed oil demand past its peak in advanced economies over two decades ago¹ – efficiency gains, structural economic change and now electrification – are now also increasingly visible in the markets that previously carried global demand growth. China was the core driver of global oil demand growth over the past two decades, but is now fast approaching a

¹ IEA, [Energy Statistics Data Browser](#)

plateau, especially in transport fuels. Taken together, these trends point toward a global plateau, and likely peak, around the early 2030s.

Importers exposed to high prices and chokepoint disruption also have stronger incentives to accelerate efficiency, electrification and fuel switching. The current crisis affecting transport through the Strait of Hormuz may prove to be an inflection point: by exposing the continued vulnerability of importers to globally priced oil and chokepoint disruption, it could accelerate efforts to reduce oil dependence, especially in economies with the fiscal and industrial capacity to move quickly. Petrochemicals and selected emerging markets may provide a source of residual demand growth, but they are unlikely to sustain broad-based demand for the large number of economies that depend on oil export revenues today.

The shift matters because oil underpins fiscal and political systems in many producing countries, paying for social welfare, civil service payrolls and essential imports. Oil and gas generate more than 40% of government revenue in 17 producer countries, and as much as 70–90% in countries including Iraq, Libya, South Sudan, Kuwait and Oman.² The IEA projects that per-capita net income from oil and gas in producer economies could be around 60% lower by 2030 and 75% lower by 2050 in a net zero pathway.³

When oil revenues fall, governments struggle to pay salaries, fund public services and maintain political stability. Even where oil provides a smaller proportion of government income, it may still supply the foreign exchange, export earnings, public investment, national oil company transfers and distributive spending that hold political settlements together. These countries face direct risks of fiscal crises, rising sovereign debt, and political instability as demand weakens, expectations shift and revenues become more volatile.

How producers respond to these risks will become a defining energy security challenge for importers. The central question is no longer only how to secure supply, or whether oil demand falls quickly or slowly. It is how to prevent a disorderly endgame in which producer governments misread demand signals, maximise short-term extraction, delay fiscal adjustment and turn to more transactional geopolitical bargains.

² Carbon Tracker, 2023, [PetroStates of Decline](#)

³ IEA, 2023, [The Oil and Gas Industry in Net Zero Transitions](#)

Understanding how producer countries respond to declining demand is critical for all countries

The oil endgame is not just an energy transition; it is a geopolitical and financial reordering.

For the transition to be sustainable, producer economies need to adjust to the reality of declining oil demand. Without coordinated action, producer countries unable to diversify are likely to prioritise short-term revenue maximisation, leading to increased competition, higher volatility, and greater geopolitical tension.

To explore these dynamics, we developed the **Oil EndGame simulation**, an interactive exercise that allows participants to experience the constrained policy space and persistent trade-offs faced by producers. Over repeated runs of the simulation, patterns in behaviour emerged that provided insights into how producers respond to the pressure of declining demand. For our report, we combined these insights with market analysis and historic security and economic trends to show that stability, or not, in the transition will depend on the combined choices of producers, major demand powers, financial institutions and other international actors.

The common pattern from the simulations is that, when future demand and revenues were uncertain, participants often prioritised near-term revenue maximisation, output expansion, buyer lock-in and transactional geopolitical deals. More cooperative and stabilising strategies emerged only where credible alternatives were available, including transition finance, market access, diversification investment, and clearer demand signals from major importers.

Even with alternatives available, it is not a given that producers will restrain production. For example, a resilient, lower-cost producer such as the UAE can strategically decide to use remaining demand to monetise competitive barrels and preserve geopolitical influence. However, having credible alternatives *reduces the risk* of disorderly, fiscally driven behaviour among more vulnerable producers, who might otherwise feel compelled to maximise output or adopt destabilising strategies.

The simulation therefore does not predict a single future, but helps explain why the oil endgame could become disorderly, and what kinds of cooperation can reduce that risk.

► The Oil EndGame simulation

In the simulation, participants are placed in the role of decision-makers in eight different oil-producing countries, reflecting a range of producer archetypes from high-income Gulf exporters to more fiscally vulnerable and emerging producers. Each run takes place over four rounds set over the time period 2028–2040 and within one of three scenarios: a rapid transition, a messy transition and a slower, more fragmented transition. These scenarios combine global energy market pathways based on IEA projection with geopolitical, financial, security and climate variables that shape the choices available to producer governments.

E3G has run the simulation with a total of over 100 participants from governments, international institutions, academia and civil society.

The insights from the simulations have been tested with representatives from both producer and importer governments.

E3G is available to convene and facilitate tailored Oil EndGame simulation workshops with governments, international financial institutions and other partners, to explore producer strategies under different energy transition scenarios, stress-test international responses and identify implications for engagement and near-term policy choices..

Five key findings

1. Producer fragility is a more pressing risk than oil supply scarcity

The oil endgame requires a shift in risk management. The prospect of supply disruptions and chokepoints will no longer be the defining risk relating to oil security. Rather, it is declining and less predictable demand, transmitted through volatile prices, revenues and investment expectations, that destabilises the political economies built around oil revenues.

Fiscal stress in these countries from loss of oil revenues can quickly spill over into weaker governance, eroded public services and domestic unrest, which in turn can generate regional and global spillovers. Venezuela illustrates these risks: following the 2014 oil price collapse and the subsequent deterioration of its economy, more than 7 million people left the country, creating one of the world's largest displacement crises and placing sustained pressure on its neighbours.⁴

⁴ UNHCR, 2025, [Venezuela Situation: Regional Refugee and Migrant Response – Update](#)

The world's financial systems can continue to be rocked by successive energy price shocks and ongoing volatility, as producer instability can lead to perceived risks of disruption to supply, transport or investment even in times of declining demand. Regional tensions due to displacement of people or competition for declining rents may cause wider ripples, and overall geopolitical relations are likely to become more transactional, reducing options for diplomacy.

Many producers, including some core suppliers of the EU, are in a “risk zone”: Algeria is dependent on hydrocarbon revenues, exposed to water stress, high youth unemployment and broader fiscal pressures.⁵ As European fossil fuel demand declines over time, the resulting instability in North Africa can become a European security concern rather than simply an energy market issue.⁶

These spillover risks raise the prospect of an uncertain, volatile future for importers as well as producers. The oil endgame is not a challenge that producer countries alone face, and ensuring the transition is less destabilising requires coordinated support rather than leaving them to face it alone.

2. The transition risk will appear first in sovereign finance and debt markets

The pressures of the oil endgame are likely to show up first on sovereign balance sheets, not in physical supply disruptions. Oil-dependent economies are exposed through their debt burdens, exchange rates, investor confidence and the fiscal role of national oil companies. This places macroeconomic stability at the centre of the transition and highlights the critical role of financial institutions.

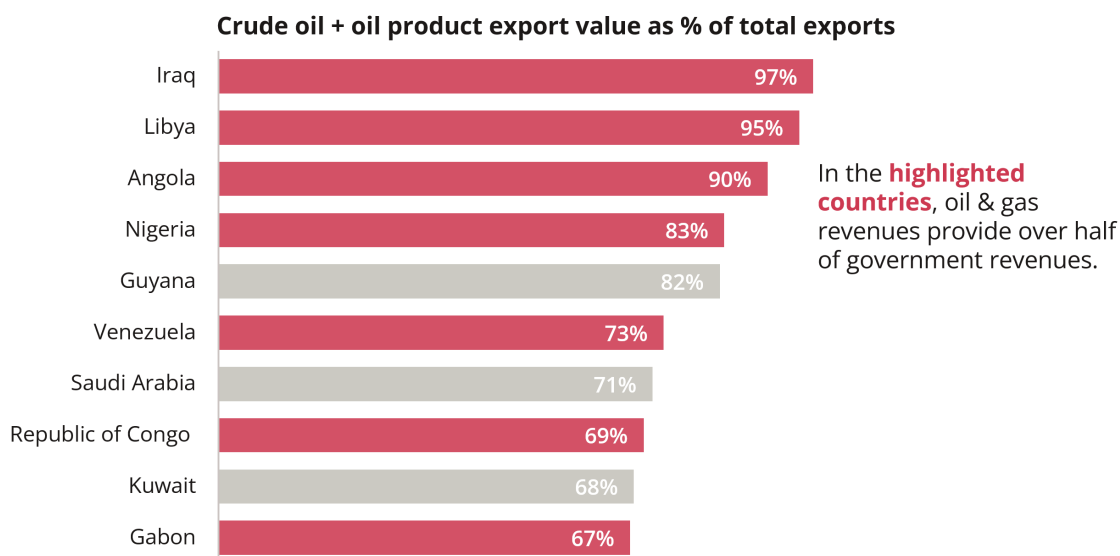
Many oil-dependent economies face a “double exposure”: transition risk from declining or volatile hydrocarbon revenues, combined with physical climate risk from worsening droughts, floods, heat, water stress and infrastructure damage. Mid-tier producers with high fiscal dependence, limited buffers and weaker diversification options are particularly exposed. Countries such as Nigeria, Angola and Algeria deserve particular attention because they combine significant export capacity and systemic importance with relatively limited fiscal buffers and sovereign investment capacity, unlike wealthier petrostates.

⁵ World Bank Group, 2026, [Algeria - country overview](#)

⁶ E3G, 2024, [Future of EU oil and gas suppliers in a low-carbon world](#).

Mid-tier producers are among the most exposed to declining oil revenues

TOP 10 PRODUCER COUNTRIES BY DEPENDENCE ON OIL EXPORTS



Notes: In all countries shown, hydrocarbon exports – and therefore contributions to government revenues – are predominantly oil.

Sources: E3G calculations using export value data from OEC World, <https://oec.world/en> and World Bank Group [Data Explorer](#), 2024 data. Contribution of oil and gas revenues to government revenue from Carbon Tracker, December 2023, [PetroStates of Decline](#) – data not available for Guyana.

A group of African producers, including Chad, Gabon, Congo, Angola and Nigeria, combine high oil dependence and acute climate vulnerability with high debt repayments. Angola, for example, already spends almost 30% of government revenue servicing public debt, leaving little fiscal space to absorb prolonged revenue shocks.⁷ In such contexts, even modest changes in oil prices or demand expectations can trigger fiscal crises, social unrest and political instability.

Importantly, it is not only sustained low prices that matter. Volatility itself can disrupt budgeting, borrowing and other core state functions.

⁷ E3G calculations using data from [IMF Datamapper](#) on current GDP, interest paid on public debt as % of GDP and government revenue as % of GDP (all data for 2024).

3. Producers do not exit quietly; they become more strategic

The transition is not a passive decline in demand; it is a political contest over shrinking and less predictable rents. The incentives facing producer countries still favour continued upstream investment over early diversification. Oil offers relatively large and immediate revenues for most producer governments, while diversification gains are longer-term, uncertain and politically harder to claim credit for. For new entrants into the oil market, such as Guyana and Senegal, plateauing demand raises the prospect of stranded expectations as much as stranded assets.

Voluntary production restraint is therefore rare. As the window to monetise resources narrows, some producer governments may seek with greater urgency to protect revenues through higher production, fiscal adjustment, subsidy reform, cleaner production, gas monetisation, strategic alignment with new buyers, or more aggressive competition for shrinking market share. Saudi Aramco and Gulf producers for example are increasingly investing in Chinese and Asian refining and petrochemical capacity to lock in demand while diversifying into green investments at the same time.

Demand uncertainty reinforces the bias toward monetisation. In the Oil EndGame simulation, uncertainty about future demand pushed producers towards maximising output and transactional deals – this often being a safer political choice than launching costly reforms. More cooperative behaviour only emerged when credible economic alternatives, backed by finance and market access, were on the table, and clear demand signals reduced the uncertainty.

4. Demand powers shape the terms of market access

While producers compete for weakening and more geographically concentrated demand, major importers increasingly shape the conditions under which oil remains marketable, financeable, insurable and politically acceptable.

Demand power will not sit in one place. It will be distributed across different kinds of leverage:

- ▶ **China** is key because of the scale of its demand, its refining and petrochemical strategy, and its ability to anchor producer relationships through investment and long-term commercial ties.
- ▶ **India** is the largest potential future growth market, yet the growth trajectory is uncertain as faster electrification, efficiency and clean power deployment could moderate the scale of oil demand growth.
- ▶ **The EU** is one of the largest importers today, and despite the rapidly declining projected oil demand, it remains influential through regulatory frameworks, standards, finance-linked market access and its role as a high-value import market.

- **The US** continues to shape the system through sanctions, financial governance, security guarantees and its dual role as a major producer and a consumer.

For producers, the market is therefore not simply shrinking; it is becoming more selective, more political and more dependent on the choices of a smaller number of demand centres. Market access becomes a growing source of geopolitical leverage. This influence is not automatically stabilising: aligned demand signals, standards and financial rules can reduce uncertainty, while fragmented sanctions, trade measures, security postures or regulatory approaches can deepen market segmentation and disorder.

5. The oil endgame will unfold in a more fragmented security architecture

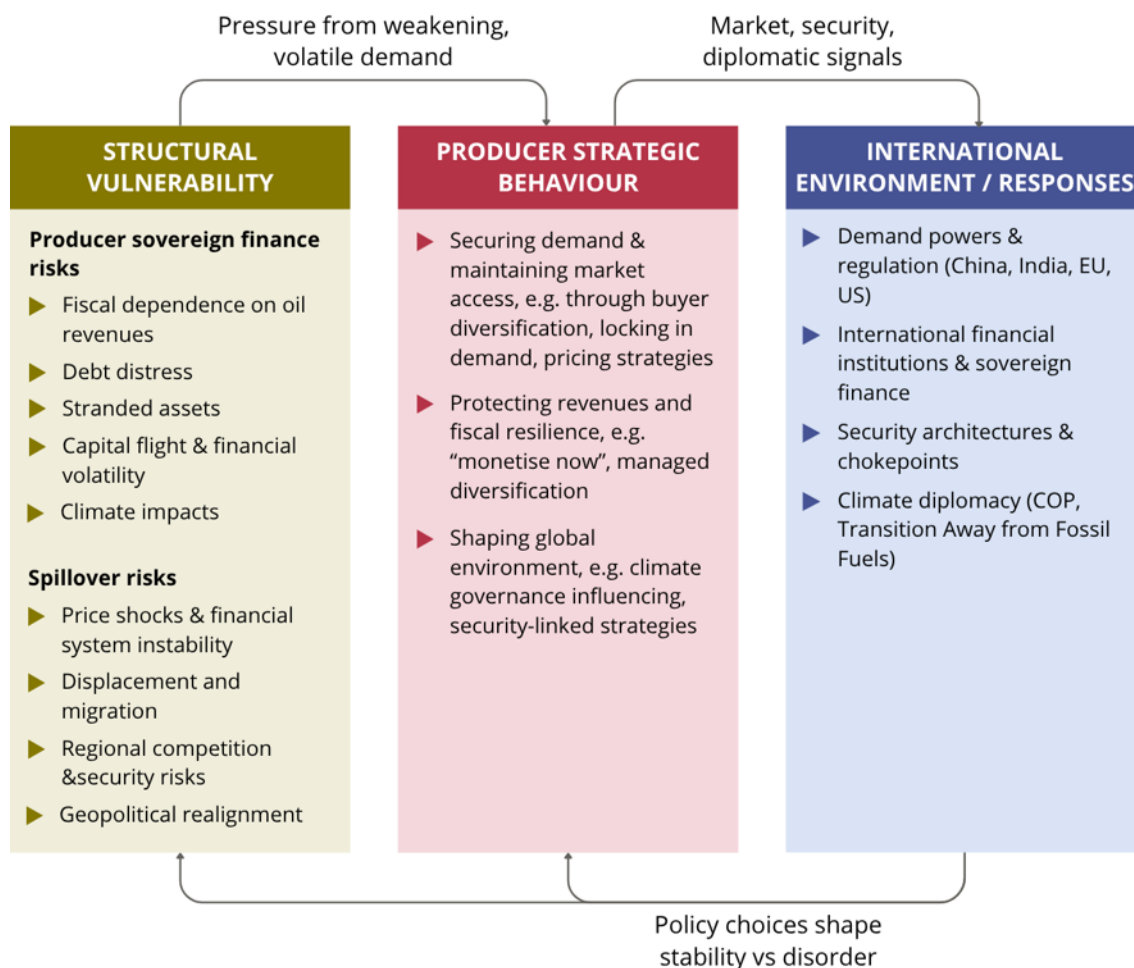
Declining demand does not make oil security less important, but it does change its core function. For much of the past century, oil security was centred on keeping physical supply routes open and ensuring access to sufficient volumes. In the oil endgame, security architecture will increasingly determine which producers can access shrinking markets, which trade routes remain insurable, which sanctions regimes hold, and how producer fragility is contained.

This shift is already visible. The US remains the principal hard-security actor in key maritime theatres, but its role now extends beyond oil supply protection to sanctions enforcement, deterrence and strategic competition. China is becoming a more important commercial, financial and diplomatic actor, without yet replacing the US security umbrella. Russia's ability to keep sanctioned barrels moving through discounts, alternative buyers and shadow fleets shows how oil trade can fragment into parallel systems when sanctions, insurance and shipping governance are contested. The result is a more layered and fragile oil-security order.

Physical chokepoints such as Hormuz, Bab el-Mandeb and Suez still matter, but so do "paper chokepoints": access to insurance, shipping services, classification, compliance documentation, payments and port entry. These tools can strengthen market governance where coordination holds, but they can also push trade into more opaque channels, increase accident and environmental risks, weaken sanctions enforcement and deepen dependence on bilateral deals.

In a volatile oil endgame, these dynamics could add further disorder. Fragile and emerging producers may become more exposed to transactional security bargains, including arms, private security, infrastructure protection or regime-security deals linked to access and influence. Importer coordination therefore becomes a preventive security tool, not only a crisis-response mechanism. Governments will need stronger coordination across strategic stocks, demand signalling, sanctions, insurance, shipping transparency, maritime governance, standards and producer-consumer diplomacy.

A system map of the oil endgame



Navigating the oil endgame: cooperation to reduce instability

Managing the risks associated with the decline of oil is as important as accelerating the growth of clean energy. A slower transition does not automatically reduce instability if it leaves producer countries exposed to volatile revenues without credible pathways for adjustment. A more stable transition will require governments to reduce uncertainty, support producer resilience and avoid a zero-sum competition for remaining rents.

A stable transition cannot be guaranteed, but it can be made more likely. Just as the players in the endgame – producers, importers, and institutions through which they cooperate – can make strategic choices to maximise revenue, secure supply, and operate in competition, they can choose to coordinate to support less volatile and more equitable outcomes. The oil endgame is not zero-sum; cooperation among the players can shape a more stable transition for all.

Climate diplomacy cannot confine itself to negotiating the language of phase-out; it also has to manage the instability created by decline. At the moment there is a governance gap:

the world has tools for managing oil supply shocks but it does not yet have a serious architecture for managing oil decline. The challenge for governments is not to slow the transition, but to manage the way down. Coordinated action is needed between producers, consumers and international finance institutions in three areas:

- ▶ **More proactive diplomacy from major consuming economies** toward producer countries.
- ▶ **Better integration of transition risks into macroeconomic policy** and more support for producer economic diversification from international financial institutions.
- ▶ **A climate diplomacy framework that aligns the above efforts**, evolving from emissions negotiation to coordinated management of the transition.

Recommendations for importer governments/demand centres

Move diplomacy beyond emissions targets

Governments should deploy coordinated macro-financial support, trade and investment partnerships, regulatory tools and security cooperation to help producer economies manage declining revenues and promote regional and global stability.

Integrate energy transition with foreign and security policy

Declining fossil fuel demand will reshape geopolitical stability, not just energy markets. Governments should treat the transition as a core foreign, development and security strategy, especially in regions heavily dependent on hydrocarbon revenues.

Adopt differentiated strategies for different producer types

Wealthy, low-cost producers with significant financial buffers face different incentives and opportunities than middle-income or vulnerable producers with high fiscal dependence on fossil fuels. Mid-tier, fiscally exposed producers are a critical group: they retain significant export capacity and regional importance, but lack sovereign wealth, institutional resilience and diversification options. Targeted partnerships with these countries will be essential to reducing systemic instability.

Recommendations for international finance institutions and finance actors

Use macro-financial tools to stabilise producer decline

In the oil endgame, producer economies face familiar resource-dependence challenges under conditions of structural demand uncertainty, physical climate risk, investor repricing and tighter fiscal space.

Governments and international financial institutions should deploy existing resource-governance and macro-financial toolkits earlier and more systematically to transition risk – rather than inventing new instruments – before shocks crystallise as full-blown fiscal or debt crises. Supporting producer adjustment is not development assistance alone; it is preventative security policy.

This includes fiscal stabilisation frameworks, stronger non-oil revenue mobilisation, national oil company governance, subsidy reform, debt sustainability analysis, contingent credit lines, transition-linked finance instruments and support for economic diversification. The overall priority should be credible economic partnerships that change underlying incentives, not diplomatic signalling alone. A near-term priority can be incorporating oil-price and revenue-volatility scenarios into IMF surveillance, debt sustainability analysis and fiscal-risk assessments, rather than testing only smooth long-term decline or low-price pathways.

Recommendations for climate diplomacy and coalitions

Pursue coordination among major importing economies

Clear and credible signals about future demand, combined with coordinated crisis responses, can reduce uncertainty and limit destabilising behaviour. International processes such as the Transition Away from Fossil Fuels (TAFF) roadmap agenda provide an opportunity to institutionalise such coordination and align expectations between producers and consumers.

Build inclusive international coalitions

Bring together both early movers, including through initiatives such as the Beyond Oil and Gas Alliance (BOGA) and the TAFF process, and countries facing structural challenges to support peer learning, share resources and enable cooperation across different transition timelines. These coalitions will be most effective if they recognise the diversity of national circumstances while maintaining a shared commitment to a managed and equitable transition.

Recognise producer agency and incentives

Negotiations over phase-down timelines and transition finance will continue to be arenas of strategic bargaining, not purely normative agreement. Recognising producer agency clarifies that transition outcomes are contingent on political choices. The pace and stability of demand decline will depend on whether governments, both producers and importers, treat the transition as a cooperative endeavour or a zero-sum competition for remaining rents.

ABOUT E3G

E3G is an independent think tank working to deliver a safe climate for all.

We drive systemic action on climate by identifying barriers and constructing coalitions to advance the solutions needed. We create spaces for honest dialogue, and help guide governments, businesses and the public on how to deliver change at the pace the planet demands.

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