The Return of the Global Energy Crisis

eResearch Corporation is pleased to provide an article from Oil & Energy Investor, featuring Dr. Kent Moors.

Bottom Line: On a global basis, there are mounting concerns about the demand and supply equation for energy. Dr. Moors concludes that, with more nations committed to industrial and economic development, the energy impact will be felt in both developed and emerging markets. A rising energy price dynamic will follow, and there will be some interesting investment opportunities in the attempts to meet it.

The article begins on the next page, and is entitled: “The Return of the Global Energy Crisis”.

Oil & Energy Investor is a leading source of investment news, research, financial opportunities and insights on global markets, with a particular emphasis on the oil and gas sector.

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The Return of the Global Energy Crisis

by DR. KENT MOORS | published FEBRUARY 19TH, 2013

For months, the signs of an impending global energy shakeup have been building. This is not to say that we have an impending long-term shortage (it is not, in other words, a Peak Oil prophecy coming true) or that the lights are about to go out around the globe.

However, it does appear we are moving into another round of concerns for energy balance and production moving forward. A combination of reasons exists for the accelerating crises. Most of them are either the result of expanding energy requirements (a rise in aggregate demand) or the increase in baseline production and generation costs.

The first is playing out in regions typically unknown for their energy intensity. This is more the case outside the OECD countries (the most developed industrially) than it is a North American or Western European case. We should expect such a result, given the movement of new energy demand into these regions.

While the media attention centers on the U.S. and European markets, the other nations have driven global demand for some time. That means any spike in prices worldwide will have an impact on what it costs to obtain energy just about everywhere else. As an investor, you should not focus on where the energy is produced. Remember, this is a globally integrated market, and prices will reflect that fact.

Still, it’s the second trend that is causing the most significant problems moving forward.

And investors will have plenty of opportunities to profit as this problem accelerates.
Production Costs Continue to Rise

Almost every day, we hear of some technical advance that should prescribe a decline in energy costs. Unfortunately, even if these “break-throughs” warrant attention, initial cost projections are never accurate. The cost of scaling any new approach, of providing the supply and support network required, always expands. Those costs are passed downstream to the distributors and end users. We are left, therefore, with considering the cost factors in current production.

Across the board, costs are rising, and this trend is expected to continue for some time.

A number of reasons exist for the rise in oil production costs, starting with the lower quality of new crude oil deposits worldwide, the smaller fields, and the rapidly increasing costs of infrastructure.

Natural gas, on the other hand, while apparently more plentiful thanks to shale, tight gas, and coal bed methane, would seem to offer lower costs if we look at the restrained prices of gas at the well-head.

But the massive investments required all add to the end price. This includes new costs in midstream pipelines, initial processing and fractionating, terminal and storage to expand the gathering, and transport and delivery networks.

Large areas of the world require gasification, with local markets and production now dependent upon moving from less energy efficient and health hazardous alternative sources (biomass, for example).
As for electricity, the problem is rather straightforward. There is insufficient generating capacity, and much of what is available is suffering from age and low levels of maintenance. These are also often the result of cross-border problems. One country’s difficulties in generating electricity result in another country’s brown outs.

It is this combination of factors in diverse energy sourcing that is now once again pushing up prices. And the over-arching problem is becoming apparent via a very cursory survey of developments. For example, in the past week I ran across the following, without doing any serious research. In each case, there are few easy solutions.

**Energy Crises Swarm Developed and Emerging Economies**

This energy shortage is not discriminate between developed or emerging economies. Both groups are now preparing for serious consequences of both macro conditions and their own energy policies over the years.

In Thailand, the government is under pressure to enact emergency operational plans to meet an impending national power shortage expected to hit in April. This is resulting from annual maintenance on gas production platforms in Myanmar (Burma). Thailand depends on gas imports to generate its domestic power. Local coal can no longer fill the deficit since there is not enough co-fueled generating capacity.

The economy in Pakistan is on the verge of collapse as its energy needs expand at the same time as its ability to produce domestic energy declines. The entire country is desperate for new pipelines and gas imports. One source is Turkmenistan, where there are some of the largest deposits in the world.
Unfortunately, the Pakistani needs are not large enough to justify the costs of building the pipeline. The pipeline requires that energy-starved India be included. Pakistan would then benefit from both the gas needed at home and make some money in the transit fees charged to India.

There are just two problems. First, these two countries hate each other. Second, the pipeline would need to cross an area of Pakistan controlled by local warring factions, not by its central government.

The other source is a pipeline from neighboring Iran. Following that plan results in Islamabad falling into the cross hairs of U.S. sanctions over the Iranian nuclear program.

For its part, India is experiencing another round of significant oil price rises, as domestic prospects decline in an attempt to meet rising demand. The problems are compounded by increasing refinery shutdowns and pipeline accidents.

The unusually hot weather has resulted in massive power outages in Paraguay, while Egypt faces an almost complete shutdown within six months as the energy sector’s ability to provide minimum necessary levels to meet expanding demand has disappeared.

The U.K. is also now facing an energy shortage. As the nation debates whether it should tap shale gas, and the prospects of crude oil from the North Sea continue to decrease, a plan to produce more electricity from nuclear reactors has suffered a major defeat.
British Gas announced it was pulling its support from a plan to build four new nuclear plants. The current government in Whitehall will not fund the venture, and there appear to be no other private sector entities prepared to move in to replace BG. London faces a genuine crisis and lacks a backup plan.

As for Germany, the country must deal with the consequences of its bold decision to phase out nuclear energy and its popular opposition to domestic shale gas drilling. These decisions leave the strongest European economy with a very expensive (and untested) renewable energy market or an increasing reliance on Russian natural gas imports. The latest estimates show that either reliance will result in a 60% increase in household electricity costs.

These developments are not aberrations. The situation will get worse.

Previously, the most industrialized nations (led by the U.S.A.) would wait until the developing world – concerned about price and inflation – would have no choice but to suppress its own increasing demand. As a result, they would sacrifice their own development. Not this time. With more nations committed to industrial and economic development, the energy impact will be felt in both developed and emerging markets. A rising energy price dynamic will follow, and some interesting investment opportunities in the attempts to meet it. It is still essential to recognize that not all companies will benefit. Nonetheless, the oil sector is going to remain a major place for individual investors to make money.

Sincerely, Kent

BW: See Dr. Moors’ bio on the following page.
Dr. Kent F. Moors is an internationally recognized expert in global risk management, oil/natural gas policy and finance, cross-border capital flows, emerging market economic and fiscal development, political, financial and market risk assessment. He is the executive managing partner of Risk Management Associates International LLP (RMAI), a full-service, global-management-consulting and executive training firm. Moors has been an advisor to the highest levels of the U.S., Russian, Kazakh, Bahamian, Iraqi and Kurdish governments, to the governors of several U.S. states, and to the premiers of two Canadian provinces. He’s served as a consultant to private companies, financial institutions and law firms in 25 countries and has appeared more than 1,400 times as a featured radio-and-television commentator in North America, Europe and Russia, appearing on ABC, BBC, Bloomberg TV, CBS, CNN, NBC, Russian RTV and regularly on Fox Business Network.

A professor in the Graduate Center for Social and Public Policy at Duquesne University, where he also directs the Energy Policy Research Group, Moors has developed international educational programs and he runs training sessions for multiple U.S. government agencies. And until recent revisions in U.S. policy, Dr. Moors was slated to be the deputy director of the Iraq Reconstruction Management Office (IRMO) in Baghdad.

Moors is a contributing editor to the two current leading post-Soviet oil and natural gas publications (Russian Petroleum Investor and Caspian Investor), monthly digests in Middle Eastern and Eurasian market developments, as well as six previous analytical series targeting post-Soviet and emerging markets. He also directs WorldTrade Executive’s Russian and Caspian Basin Special Projects Division. The effort brings together specialists from North America, Europe, the former Soviet Union and Central Asia in an integrated electronic network allowing rapid response to global energy and financial developments.