Cut energy demand to meet shortage

Gulf of Mexico, Japan and Mena incidents have significantly and immediately reduced the world’s supply of cheap energy

By NG WENG HOONG

Between April last year and March this year, the world was struck by three black swan events. Economists knew the term “black swan” was a colloquialism, yet, strangely, seemed unprepared for when they did.

The Gulf of Mexico oil leak, the political upheavals in the Middle East and North Africa (Mena) region and the earthquake-tsunami-nuclear tragedy in Japan are already inflicting history-altering impacts, not the least, because they have significantly and immediately reduced the world’s supply of cheap energy.

Yet, their occurrences should not have surprised anyone as experts including geophysicists, physicists, politicians, economists, nuclear scientists, environmentalists and regulators have been warning for years that deepwater drilling carries high operational risks, that the Mena countries were ripe for revolution and that any of Japan’s 54 nuclear plants could lead to radioactive disaster if struck by a massive earthquake.

Tougher regulations and the increased costs of deepwater operations following the Gulf of Mexico disaster have already slowed offshore developments that could reduce up to one million barrels per day (bpd) in new oil.

While the spreading unrest is threatening the world’s spare crude oil reserves, collapsing the world’s supplies of cheap energy.

The March 11 tsunami-quake-nuclear disaster has already shut down the giant Fukushima nuclear power complex, forcing Japan to compete with other countries for oil, coal and natural gas supplies.

The direct and imputed loss of anything from two to four million of crude supply at an average cost of 3.5 per cent of global consumption within such a short time has reduced the world’s surplus oil capacity just as demand is surging to record high levels of over 88 million bpd today.

The world’s spare crude oil reserves of around four million bpd could soon vanish as demand – the economic recession in the West notwithstanding – is still growing. The world will have the impossible task of finding and producing a minimum of 12 million bpd of oil by 2030. At the same time, oil companies must arrest the rapid 8.3 per cent annual decline of maturing fields.

Economist Jeff Rubin put it starkly last year: “You have to run faster to stand still – about four million bpd faster every year just to offset what we lose to depletion globally.”

Gulf of Mexico oil leak

As its memory fades, some might wonder if the worst was all behind as a BP-chartered oil rig blew up in the Gulf of Mexico, creating a world-record oil spill. Along with the death of 11 workers, the rig sank to the bottom of the sea in 2010, up from around 2 per cent in 2000. Oil companies counting on deepwater supplies to continue to make up for declining onshore fields will have to rework their numbers.

Mena implosion

The speed of-upstream and civil wars sweeping the Mena region since last December are threatening the world economy as the Middle East alone supplies more than 30 per cent of its oil and holds more than 66 per cent of its oil reserves and 45 per cent of its natural gas.

Encouraged by the overthrow of the Tunisian and Egyptian presidents, protests have spread to Saudi Arabia, Bahrain, Kuwait, Oman, Jordan and Qatar, while Yemen, Syria and Sudan could follow Libya into civil war.

The West and Asia’s energy-dependent giants, China, Japan, India and South Korea, are panicking as they have largely extradited the region’s monarchies and military to keep the oil flowing.

Governments have begun imposing tougher regulations and ordered more inspections of offshore oil projects. Insurance costs have risen sharply while oil companies must invest heavily to improve their technological, technical and management capabilities to work in deepwater areas.

According to consultant HIS CERA, deepwater oil provided just under 10 per cent of total world supply in 2010, up from around 2 per cent in 2000. Oil companies counting on deepwater supplies to continue to make up for declining onshore fields will have to rework their numbers.

Mena implosion

Japan’s economic collapse

Japan could be the first major modern economy to collapse from mismanaging its energy policy.

Mired in an economic slump for over two decades, Japan Inc is thrusting along from the impact of the March 11 tragedy. More than 34,000 people died following the 9-Richter-scale quake which set off a tsunami that damaged or destroyed towns and villages, farmland, infrastructure, refineries and nuclear power plants.

Within minutes the world lost 29 per cent of its electricity.

The world felt the impact of Japan’s added demand for fossil fuels in the weeks after the disaster. Liquid-natural gas demand surged, pushing Asian prices up to as high as 30 per cent to more than US$14 per million BTU.

Energy austerity, not security

While the world might have a case for pleading “bad luck” to the occurrence of three black swan events in less than a year, it will have little excuse not to prepare for what lies ahead.

While the West remains in recession and the Middle East burns, Asia, flustered by its economic success, is consuming growing amounts of oil, gas and coal as if they will always be cheaply available. Renewable energy sources will not be able to fill the roles of fossil fuels and nuclear power, while neither coal nor natural gas supplies, whether from conventional or fracking sources, will flow fast enough to meet the region’s insatiable energy demand.

There will not be enough cheap energy supply to meet the world’s rising demand. The only serious option left would be a conscious and organised effort to reduce demand and to start calling activities and sectors that cannot be sustained when oil rises to US$150 a barrel and higher.

Japan’s enforced energy austerity, as symbolised by the darkened sky of Ginza and the slow death of its pachinko industry, points to a real possible future for Asia.

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