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The oil saga grinds on / Life in Russia is OK / Peak Oil - sometime / Rare earths not so rare / Iran and Ukraine messes / What Obama is trying to achieve

The oil saga grinds on

Some analysts believe that 35% of all the world's oil companies are losing money on today's prices, but from what I can make out the number is over 50%. Many large ones are too well entrenched to be damaged but the huge numbers of smaller ones tend not to have the volume or the best locations. For the state owned companies Saudi Aramco, Pemmex and PVDSA, the actual cost of producing the oil is less significant than the degree to which the oil supports social programmes. So a \$1 price reduction for oil sold, means some element of hardship for those reliant on state handouts.

Life in Russia is OK

I was intrigued to speak with a guy who has just returned from a month in Russia. He was amazed at the place, seeing very few poor folks and realising that in Moscow the doctors come to the patient and their service is free, to see that all apartments are heated with hot water, supplied free of charge. He was amazed at the low cost of living and the ready availability of all foods. So while we hear about the problems of the sanctions imposed on Russia, he saw none of it and would like to return there again in 2015. His only caveat was that apartment sizes are very small unless you are rich. (seemed to me he was in love with more than just the country).

But Russia has a falling population, so everyone needing an apartment gets one – free for the poor.

The Russian tax on oil companies such as Rosneft (the world's largest listed) and Lukoil are around 45% of revenue - that is what drives the oil companies to produce as much as they can pump in order to overcome the cost of lower prices.

So whether driven by bankers or the politicians, no-one is taking their foot off the accelerator.

The need for both Russia and the Saudis to pump as much oil as they can to overcome the cost of social services to government coffers will in turn help to bankrupt the US shale industry which is highly leveraged. But even so, there are still many factors that could affect whether prices rise or fall in the short term...

<http://oilprice.com/Energy/Oil-Prices/This-Is-What-Will-Determine-If-Oil-Prices-Go-Up-Or-Down.html>

We all know about California reducing water use by 25% to cope with the drought, but fracking for oil and gas production is exempt...lol...

<http://www.reuters.com/article/2015/04/03/us-california-drought-fracking-exclusive-idUSKBNOMU01M20150403>

Californian shale is just a red herring because there is not that much to be gotten out of the Monterey Shale fields as far as I can see.

The increase in global oil production over the last five years is almost solely due to new techniques for extracting oil from source rock (with poor porosity, permeability and high gas content), rather than reservoir rock. This shale oil has an unfortunate feature, in that depletion rates are six times worse than for conventional wells. So as the number of new wells being drilled tapers off, the production of light tight oil from shales will drop from 4.5 million bbls per day towhatever. If the oil price stays low, it may transpire that the major US shale plays could have already peaked...or be about to do so within a year or so.

<http://news.goldseek.com/GoldSeek/1428246720.php>

In my opinion this article hypes the shales demise because we have seen that the decline side of the Hubert curve is more gradual and affected by efforts to enhance recovery from fading wells. Now there is some re-entry and re-fracking and other techniques...so the drop –off may be more gradual – I hope!

Peak Oil - sometime

The problems of timing the advent of “peak oil” are as difficult as figuring out when the next big financial crash will occur because the “empire fights back”. There is so much at stake that simplistic views of what will or will not happen often prove wrong. The GFC in 2008 was recognisable in advance. But now every country, central bank and major global organisations are united to prevent or delay the next biggie.

It is the same for oil and meantime, the powers that be will not allow publication of anything that contradicts their own narrative of pseudo growth and business as usual. The reason for this is simple, they have as yet no real solutions.

Rare earths not so rare

For anyone interested or who wants to do their own research.

Well to start with rare earths are not so rare. Until recently, China produced 98% of the rare earth elements used in global industry. Most of that was produced at either Baosteel or in small, dirty and dangerous places (and smuggled out) that have gradually been shut down. But even the lake of sludge at Baotou is probably the most noxious and environmentally damaging outpouring of rubbish...anywhere on earth...

<http://www.bbc.com/future/story/20150402-the-worst-place-on-earth>

Now Molycorp in USA and Lynas in Australia/Maylasia have their plants running, but anyone who tries to compete against the Chinese loses money.

I have discounted Molycorp as an investment but the combination of Lynas (ASX:LYC) and Northern Minerals (ASX:NTU) have been on my watch lists for five years – but mainly just to watch the action. NTU has world leading supplies of heavy rare earths (the stuff in greatest demand) and their game plan is to increase the concentration of the valuable minerals in the ore and then ship the beneficiated ore to other folk who may wish to process it. Because of the scarcity of heavy rare earths, the share price of NTU has remained reasonable stable at about AUD 23-25 cents. LYC's share price just seems to steadily fall.

Sooner or later these companies may have value but because rare earths are usually found in a mix of uranium/thorium or other nasty elements, refining the ores is not regarded as a very clean business.

Right now the rare earths market seems over-supplied, so this commentary is in no way a recommendation for buying shares in the stuff and I thankfully hold none at present.

But who knows...perhaps one day?

From what I can see, the future of a viable energy storage system to power our transport systems is likely to be found by storing energy in super-capacitors like the mythological EESU...even if the EESstor Corporation does not succeed...

<http://phys.org/news/2015-04-scientists-quick-charging-hybrid-supercapacitors.html>

Iran and Ukraine messes

Mr Obama looks to be on a collision course, with not just his Congress, but also with political reality over Iran ... someone please give him a Farsi dictionary...

<http://nypost.com/2015/04/04/translated-version-of-iran-deal-doesnt-say-what-obama-claims-it-does/>

Then there is this narrative

<http://www.zerohedge.com/news/2015-04-04/mapping-irans-nuclear-program-and-oil-facilities>

What Obama is trying to achieve

I do have a little trouble understanding what Obama is trying to achieve? Success in Iran could even make the destruction of his own oil industry the more certain and a bigger crash for the financiers.

On Ukraine, Russia and the West are now more open about training their clients, but Russia is not yet up to admitting it is the Russian special forces in mufti that have been doing most of the damage...

http://en.radiovaticana.va/news/2015/04/04/russia_to_train_pro-russian_rebels_despite_gas_deal_/1134461

Europe must be getting sick of the entrenched positions in Ukraine. Meantime the news from within Ukraine speaks of 44 battalions of volunteer Ukrainian patriots arming and training for the conflict. This could get very dirty as the East Ukrainian volunteers will likely indulge in revenge wherever they are successful.

<http://peakoil.com/publicpolicy/nigeria-is-a-case-study-in-the-curse-of-oil>

I wonder what the Islamists will do next in Kenya and Nigeria?

Islamism is totally flawed and as time moves on, the inter-religious war now getting going within the Middle East and North Africa, and well under way, simply cannot end well.