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## Better-Management Newsletter 23 May 2015

**If Greece defaults / More gas guzzlers / End of the industrial age of oil / Humanity's quest for "More" / Maintain the illusion of growth**

If Greece defaults, will this cause a run on global Credit Default Swaps (aka CDSs)...?

[http://seekingalpha.com/article/3201656-greece-says-that-it-will-default-on-june-5th-and-moodys-warns-of-a-deposit-freeze?source=email\\_macro\\_view\\_eco\\_2\\_31&ifp=0](http://seekingalpha.com/article/3201656-greece-says-that-it-will-default-on-june-5th-and-moodys-warns-of-a-deposit-freeze?source=email_macro_view_eco_2_31&ifp=0)

As I have said before I am more concerned for the collapse of the shale Ponzi scheme. IMHO the IMF and ECB will manage the Greek issues much more carefully than the Fed managed the Lehman Bros collapse. It seems more likely that the US Fed will have trouble when the shale borrowing excesses come home to roost in CDSs.

The Balkans are these days absorbing more attention from the major powers...

[https://www.stratfor.com/analysis/problems-foreign-powers-find-balkans?utm\\_source=freelist-f&utm\\_medium=email&utm\\_term=article&utm\\_campaign=20150521&mc\\_cid=dd73f66c7b&mc\\_eid=f6520e17b6](https://www.stratfor.com/analysis/problems-foreign-powers-find-balkans?utm_source=freelist-f&utm_medium=email&utm_term=article&utm_campaign=20150521&mc_cid=dd73f66c7b&mc_eid=f6520e17b6)

This is of intense strategic importance to the EU because Russia is currently planning on diverting Ukraine piped EU gas to the East yet plans to counter the expansion of other gas supplies to the EU, via a new Southern Gazprom pipeline through Turkey- thence through Greece. But the EU will not be ready in time and if so, next winter could see serious energy shortages within the EU.

### More gas guzzlers

The Saudi decision not to manage the global oil price did not just attack the high cost quartile oil producers in Q4 last year and Q1 this year, when the oil price was lowered by 50%, it also attacked the alternatives/renewable markets. As a result the US oil consumption is now over 18.5 million bbls per day with an increase in vehicle gas guzzlers and a fall in the uptake of EVs. In China, Li Jinping is focused on increasing their oil storage capacity to 500 million bbls. In India Narendra Modi is now building more oil storage capacity as well.

There are signs that depletion is now hitting the Non-Opec output...but despite the central thesis of the article below, WTI oil is at USD60.75 today...

[http://seekingalpha.com/article/3201936-crude-oil-dont-get-suckered-into-buying-this-dip-oil-has-further-to-fall?source=email\\_macro\\_view\\_com\\_0\\_15&ifp=0](http://seekingalpha.com/article/3201936-crude-oil-dont-get-suckered-into-buying-this-dip-oil-has-further-to-fall?source=email_macro_view_com_0_15&ifp=0)

Unfortunately for oil producers in the rest of the world, OPEC producers are profitable at low prices, but have a huge incentive to increase production in order for their oil profits to still

cover more of the cost of their country's social programmes. So shale oil production in the USA has likely peaked this month – or last.

### **End of the industrial age of oil**

There will likely be a combination of factors that brings about the end of the industrial age of oil. The first is depletion of the easy fields where sweet light crude is still being profitably produced (mainly in the OPEC countries), secondly the unwillingness of the markets to pay premiums for synthetic oil from the tar sands, ultra-deep water oil and shale oils. But third, the renewable energy storage innovations may eventually replace oil for some transport purposes as the price for the marginal barrels makes renewable more economic.

Now the world faces an even bigger challenge as the Middle East is targeted by ISIL and the USA policies are failing by the day...

<http://endoftheamericandream.com/archives/in-iraq-isis-is-winning-and-the-united-states-is-losing>

and

<http://www.usatoday.com/story/news/world/2015/05/20/islamic-state-syria-palmyra/27660113/>

This could mean that if the Islamic State get their way, they will control about 90% of the world's cheap to produce oil ... worth thinking about?

### **Humanity's quest for "More"**

Let's summarise. Based on my own readings...humans in their present form have been around for some 200,000 years.

The first civilisations with a clear anthropological trail began in about 10,000BC.

By 5,000BC we had fire, farm animals, weapons, tools and the wheel.

By AD1, we had about 250-300 million people on earth. Then humanity and their livestock represented approximately 5% of the earth's land mammals. 96+% of all humanity was focused on food production.

By 1500AD the earth's human population had risen to 500 million.

By 1750AD we discovered many more uses for coal and started to develop steam driven motors, harnessing coal's energy. This began the "industrial revolution".

By 1807AD the earth's population had reached 1 billion, and it became commonplace for the surplus populations in Britain and Europe to emigrate or be transported to the new countries...Africa, North and South America, Australia and New Zealand.

In 1858 the first oil well was drilled in Pennsylvania, USA, and the oil started to be used as a replacement for whale oil by the 1870's (as the whales were fished almost to extinction).

By 1921AD the earth's population was recovering from WW1 and reached 2 billion. And then the use of oil, gas and coal brought forth a huge number of innovations for its use in farming, industry and the home. Energy dense oil replaced the use of coal in shipping and made commercial air travel possible and popular. Electricity started to open up possibilities for a better lifestyle.

By WW2 the countries with oil won the battles and those without, Germany and Japan lost. The nuclear age was ushered in and by 1947AD the world's population hit 2.6 billion. Then the former colonies were given their freedom and with that freedom went control of most of the world's oil reserves.

By 1971AD, some of the first oil producing countries had produced most of their oil, so production started to decline. For the USA, a peak was reached of 10.1 million bbls per day. In 1973 and 1979 there were oil shocks as the Arab countries (and Iran) flexed their combined muscles. This led to US oil companies receiving subsidies...a depletion allowance to encourage them to find more oil. The USA (Henry Kissinger to be precise) reached an agreement with the King of Saudi Arabia (Ibn Saud) that in return for all oil being sold in US dollars, the USA would provide military protection to the House of Saud. Thus the petrodollar was born.

By 1990AD the Atlantic cod fishery had been destroyed by over-fishing and the earlier "cod wars" had been concluded as there was nothing further to fight over. Like the German/Russia and Japanese wars in WW2, these were an early taste of the likely future resource wars...but over access to oil.

By 2000AD the humans and their livestock were crowding out other land mammals and over-fishing the oceans outside of territorial limits. The Pacific rubbish gyre had become a pollution concern along with air, soil and water quality. Factory ships roamed the world's oceans, using government fuel subsidies to encourage factory fishing. Next as prices rose, fish farms became widely established, using food from lesser valued wild fish. Thereby concentrating fish effluent around those intensive farms. On land, the over-use and rapid depletion of top soil and freshwater aquifers had begun. More noticeably in USA, India, parts of Africa and China. The refrigerant CFC's were banned in the hope of fixing the holes in the Ozone layer and scientists had become fixated on climate science as well as air quality.

By 2011AD humans reached a population of 7 billion and their livestock reached more than 97% of land mammals, the global fish catch started to fall, but almost offset by the onset of fish farming. But by then only 4-6% of the population in the OECD countries were involved in food production.

### **Maintain the illusion of growth**

There is no doubt that humanity – now 7.3 billion and increasing at the rate of 80-90 million net per year – is on a collision course with resource depletion. What this means for macro issues like atmospheric pollution and global peace seems ominous. Yet global governments have elected to substitute money and credit expansion for the increased cost of resources so as to maintain the illusion of growth. Given the mechanism for ensuring a smoothing of

booms and busts includes an un-regulated global derivatives market, the way has been prepared for the world's first global depression.

Meantime the arguments over environmental semantics continue...

<http://climateandcapitalism.com/2015/05/19/hijacking-the-anthropocene/>

It is interesting that civil strife in the Mediterranean and Middle East is happening where countries have ceased to be net exporters of oil (Egypt, Syria, Yemen etc) and can no longer meet the cost of their social programmes. But a bigger flash point is about to build between China and countries on its Southern and Eastern borders due to aggressive efforts to lock in water supplies and oil prospects. Even the global hegemon, the USA, has taken its eye of the ball and will likely soon be revisiting the water shortages and dust bowls of the 1930s.

The biggest questions for those who ridiculed Rev Thomas Malthus arguments against over-population is "where will surplus populations emigrate to now?"

By dropping the oil price, renewable alternatives can no longer compete. It will not be easy for the global oil industry to compensate for any diminution of Middle Eastern oil supplies. That now poses a greater threat to energy supplies, given Boko Haram, al Qaeda and ISIL are militarily prosecuting their cause.

Meantime Shell Oil reports their company's opinion that cars with internal combustion engines will be phased out by 2070.... and the Saudis believe that they will largely be out of the oil business by 2040...

<http://www.ft.com/intl/cms/s/0/89260b8a-ffd4-11e4-bc30-00144feabdc0.html#axzz3ap9wWbnd>

The tell-tale canary for terminal oil depletion will be the inevitable collapse of Ghawar oil field that produces 5 million bbls per day now.... but must sooner or later go into terminal decline.

Unfortunately, unless we can find large scale alternatives, that may spell the end of globalisation of trade and long distance air travel and the demise of the "industrial age of oil" by 2030.