

Fuel for Thought

By Joseph Naemi*

The geopolitics of oil and gas has evolved from its Persian Gulf centric chapter, to an East-West separation of supply and demand dynamics. From the Cold War era prism, the aforesaid evolution has the potential to escalate the present geopolitical tensions, as the success of the Shale Revolution that is making the USA less dependent on its traditional Middle Eastern supply sources; migrates to Europe, and enables the eventual European independence from Russian hydrocarbons.

In anticipation, the integration of the Russian hydrocarbons supply chain into China and Northeast Asia (i.e., Japan, Korea, and Taiwan), will have profound effects on the future of the global distribution of energy resources; affecting the economics and competitiveness of both oil supplies from the Middle East and natural gas (i.e., LNG) supplies originating from East Africa, Persian Gulf, Indonesia, and Australia.

The foregoing trend will have military/security implications, as it binds Russia and China into the same type of relationship that the USA has long had with Saudi Arabia, Kuwait, and other countries surrounding the Persian Gulf. It will also bring into question, whether or not the USA should still be solely responsible for safeguarding the world's seven chokepoints for maritime transit of oil (and LNG).

Furthermore, the global balance of trade will shift, which will negatively impact the prominence of the U.S. dollar; hence expediting the rise of the Chinese Yuan ("RMB"), as an alternative medium for settlement of international trade.

Despite the fact that the Atlantic Alliance will become even stronger in the future than it has ever been in the past, the reality is that there shall be a clear line of "energy security" demarcation between the West and the East; perhaps, akin to the infamous Berlin Wall.

The history of mankind is fraught with wars, regional conflicts, rising and falling empires, persecution, oppression; and yes, democracy. Today, a natural resources war, and especially the battle over energy resources, is undisputable. The primary characteristic of any war is volatility. Volatility means instability, impulsiveness, unpredictability, and several other synonyms of the same attributes; precisely, evidenced in the oil and gas industry nowadays. A basic industrial commodity, whose availability should be smooth, reliable, measured, and stable, continues to be the singularly most volatile commodity; whose price deviates more often than not, from any correlation with fundamental economics.

To exacerbate the dilemma, we have recently (and naively) become accustomed to an international relations protocol, where "sanctions", are the permanent appetizer for the diplomatic main course. The UN Sanctions, the U.S. Sanctions, the EU Sanctions, the Autonomous Sanctions of Australia, Canada, UK, et al; against an array of countries worldwide, is best described as schoolyard bullying, rather than the art of diplomacy.

It is with this backstory that we fail to create harmony in the oil and gas industry. In an un-politicized market environment, the producers and consumers of hydrocarbons, have a very simple but contradictory objective. Producers are expected to maximize their revenue, and consumers are just as equally expected to minimize their expense. Consider that there is nothing in the marketplace (which is price inelastic) to allow free enterprise markets to efficiently and peacefully, keep producers' and consumers' interests in balance. This would only be possible, if governments universally refrain from intervening, by eliminating the supply and consumption of hydrocarbons from their political toolkit and diplomatic agenda. In its stead, governments ought to focus on revamping the United Nations into the organization

that it was meant to be: a forum where the 193 nations of the world may talk, listen, debate, and formulate public policies not only for the betterment of their constituencies' living standards, but also for the competent management of a tranquil, prosperous, and sustainable global village.

As Plato has so eloquently said: "Man is nothing but a two legged animal without feathers".

*Joseph Naemi, is an Australian entrepreneur with Ninox Capital Pty Ltd in Sydney with nearly 25 years of experience within the international petroleum industry. He may be reached at jn@ninoxcapital.com