

ENERGY IN THE ACTUAL CONTEXT

After 30 years working in this sector and, throughout the years I listened to both my father and grandfather, who worked all their lives on the oil industry, talking about oil and energy. Ever since, I never experienced such a confusing situation in the energy sector!

A mix of good and bad reasons is in the basis of such situation.

I will try to list some of the main difficulties in the decision-making process we face today in the complex world of the energy business.

1. A transversal sector

The difficulty in developing and implementing energetic policies is a frequent and old reality.

It is a transversal domain, with multiple impacts in all political areas, to which, no minister, or citizens, or companies, can be strange.

It is a physics phenomenon! We cannot obtain any product or service without the use, and incorporation, of energy. Therefore, the interference on price policy, taxes, rules, technologies, etc., will be impacting on each and every one of us.

Energy and environment are two sides of the same stick. Directly and indirectly, Energy stresses up finances, tax income, grant supports, price index, as well as the competitiveness of companies. Energy is a love and hate issue for sectors such as agriculture, fishing, industry or tourism.

The bottom line: no one is indifferent to the subject of Energy and everyone has a position about it.

The situation has never been as complex as it is today, and this applies to everyone and every player in the sector.

Both European and World Energy Organizations and Policies, for almost thirty years, have been trying to manage three major objectives which are hardly compatible:

- Security of supply
- Interface between energy and environment
- Efficiency and competitiveness of the sector

In general, the Energy policy instruments -- except the measures to encouraging efficiency -- while is positively promoting one of the three objectives, is staying apart from the others. It is like Aspirin, it good for headache but it is bad for your stomach!

It was quite easier when we had to focus in only one of those goals:

- In the seventies, after the two oil crashes, we were focused on the supplying security.
- In the eighties, we were dealing with oil leaking in the oceans, the acid rains and nuclear incidents.
- In the nineties, in time of abundance of energy offer at a good price and with the "shock" Reagan/Tatcher, it was questioned the model inherited from the War, from the public integrated monopolies.

The new century has brought new and serious difficulties. Simultaneously we have an explosion of energy consumption in the world, setting very difficult geostrategic challenges; the untenable of proceeding with the model of burning fossils fuels, responsible for more than 80% of the consumption, compared to the unquestionable anthropogenic action in climate changes.

The not so well organized business sector, responsible for the offer and the regulation rules, is mostly focused on the promotion of “transparency” and the sector competition, pressured by the economic-financial scenery.

Today, simultaneously, we have to manage strong challenges that place to the three inevitable - and contentious - global objectives of the energetic policies.

It is quite difficult to balance the right therapeutic prescription for such a serious disorder.

In a scenario where competitiveness and efficiency are promoted, the outcome will be families paying more for their energy bill. Even if political manoeuvres push forward the bad news.

If this is the big challenge which the political spheres have to face, imagine what the professional of the sector have to deal with?

I would say that we are working on a casino, built over a swamp!

That is a consequence of the previously mentioned context. It reflects a daily “equation system” which decision makers are trying to solve:

1. The volatility of prices of the energetic fossil raw material, of oil, but also of coal and natural gas, were never so much pronounced as between 2007 e 2009. That concerns more than 80% of the energy consumed;
2. The impreciseness related to the cost of the CO2 emissions, a consequence of the Kyoto ending, of the current negotiations at a global level for the post-2012, or the associated rules to the mitigation mechanisms. That places uncountable difficulties to the choice of technologic options in electricity generation and in the adoption of rational economical choices, in transportation, energy efficiency investments, among others;
3. In the field of renewable sources, despite a political speech in favor of a more generalized utilization, we observe enormous incoherencies and impreciseness. Factors such as regulation, price and fiscal planning are not helping to “structure”, from a technical and financial perspective, the important contribution that these sources of energy must give;
4. The legislative euphoria that surrounds the energy and environment sectors are mobilizing parliament members and governments. One side reflects the growing attention and importance given to energy items, the other creates important adjustments or, even worse, opens gaps and regulatory impreciseness. Even when “counter-cycle” decisions (for example, the recent measure of the Spanish government in supporting national carbon), obstruct the predictability, essential in a sector with such characteristics.
5. The new regulatory sphere, where independent regulation organisms show up, did not help the clarification of the existing rules, once again maintaining frequently dubious relations of subjugation to the political power of established interests; they are a source of normative and bureaucratic charges heavy for the companies;
6. The huge technological dynamic felt in all conventional energy fields in all stages, also in the new energy sources, the osmoses of information and intelligent technologies in the classic disciplines of Chemistry and Mechanic and Electrotechnical engineering, as nanotechnologies applied to energy, the attention given besides the demand with technical solutions proliferation, of new services presents in the market, create an enormous “puzzle” in the search for better technical solutions for the future. Let me only remind the historical entrance of the electric car in the oil field, the uncertain future of nuclear contribution, the biofuels / food, etc.

7. Finally, all the instability seen, regarding acquisitions and fusions in the sector, the tendency of the electric companies joining natural gas sector and vice-versa, of the oil companies paying more attention to the gas business, a scenario where markets demand return on investment, each time more ambitious, everything seems to entangle the professionals of this sector.

As the reader may easily conclude - even without being exhaustive in listing the problems - we are living a moment truly unusual and extremely complex in an essential sector for our everyday lives and for our future.

Now put the “cherry on top of cake”: the financial crisis and its reflexes on the “real economy”, from richness redistribution amongst countries, to the serious public accounts unbalances, ending in the survival difficulties of many industrial and service companies.

2. Actual crisis

It is the right moment to leave a question and invite the Economists to think about the “price shock” responsibility (in the *commodities* since 2006, namely in the energetic) on the crisis felt in the second half of 2008.

Indeed, it was dully studied the responsibility of 1973 and 1979 oil shocks in the economic crisis that have immediately occurred:

- The geostrategic problems;
- The rebalancing of international liquidity, the famous petrodollars;
- The instability of the trade balance;
- At last, the infernal cycle of inflation, interest rates increase » investment rupture » unemployment » consumer restraint ...

At that time, we must take into account that only the oil price exploded- by the shortage created by political reasons. Carbon and Natural gas price - few important at the time - maintained their low costs, serving as a succedaneum to the rise and fall of crude.

In my Country, between 2006 and 2009, the energy bill tripled in three years.

The suspect “number one” must have been the “Atlanta delinquent”, “forced to buy a house”. And what about the role of the “usual suspect”, the oil (and the carbon and the natural gas)?

How were “recycled” the petrodollars and the gasodollars of the exporting countries? Did they catalyzed the “real estate bubble”?

This research is important as this is the moment when oil continues to be quoted 2,5 times 2004 price and carbon 3 times, although OCDE economies remain in recession or stagnation.

The so expected take off is at stake, if we take into account the potential boost of the energetic raw material quotations?

Obviously that financial crisis and the conjectural break in energy demand, for such an intensive capital sector -with high return and huge capital needs to prepare the “debottlenecking” of energetic infrastructures necessary for the future- introduced a brake on many current investments and mobilized teams - new oil and gas reserves, new liquified gas terminals, new pipelines, new refineries, wind farms, “clean carbon”, etc., etc.

We should remind ourselves that is in peace times weapons are cleaned!

These are the circumstances in which politicians should act.

To see and think in an integrated way, showing respect for companies and considering they will only act dynamically if political measures are to be taken upon economic reasoning.

To create law in a transparent and economic way, setting ahead the rules but avoiding patronising or excess in detail, for which, I should say, the legislator has shown limited technical ability and some inaccuracies.

Acting in order to keep the sector's agents confident and informed, communicating transparency and predictability on the decisions taken.

Being coherent and consequent on the policies adopted.

These principles are crucial to respond to the complexity of the scenario, counterbalancing the inconsequent populism, stop and go cases, patronising, and the gap between what is said and what is done.

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