

Oil Market Report – October 2011

Oil prices steadily ticked up in October and with the energy hungry winter months now upon us, the obvious thing for us to do is look at the situation in Chile. Pardon? Well at least it makes for an EU free report...

In terms of energy, Chile has some rather frightening parallels to the UK and our legislators should probably look, take note and learn. By most measures, Chile is South America's wealthiest country, but in late September / early October, the country was struck by crippling power-cuts. 10m Chileans were plunged into darkness, traffic systems failed, medical centres closed and vital industries such as mining were shut down.

Like Britain, Chile increasingly has to rely on imported fossil fuels for its energy requirements and is now discovering to its expense, that being able to buy energy, does not necessarily equate to having energy security. For years, cheap gas was imported into Chile from Argentina (read continental Europe and Norway for the UK), but Argentina have been bumping up prices since their economy recovered from IMF default in the 1990's. At first, higher prices were tolerated (and could be afforded by Chile), but as local Argentinean demand soared, the taps to Chile have simply been switched off. At the same time, diplomatic disputes with Bolivia and Peru make extensive imports of gas from these countries rather tricky – a little like our issues around sourcing extensive gas from Russia.

So what other alternatives does Chile have? Nuclear energy is off-limits because of the threat of earthquakes (the UK just has the tremors of Government policy to deal with). Hydro-power is a viable option for Chile, currently powering 40% of electricity production. But growth is hamstrung by green interests (sound familiar?), who to date have successfully prevented further hydro-builds in the rain-drenched national parks of the south (a climate and landscape not unlike Scotland). The powerful environmental lobby also won its 2010 battle to get plans for 2 coal-fired power stations scrapped. This largely leaves Chile with the power of the sun and projects around the searing Atacama desert are now being ramped up with alacrity. Britain's sunniest region of course is the mildly damp English Riviera and without wanting to state the obvious, Torquay is not the Atacama.

So in a month when published figures showed that Britain has only 14 days of spare gas storage, compared to France's 90 days and 70 days in Germany. Plus with the knowledge that we are the 6th biggest importer of electricity in the world, perhaps it is time to take stock. If an energy crunch is coming over the next 20 years – and worldwide demand growth predictions of 12% for oil and 44% for gas, would indicate this to be the case – Britain seems ill-equipped to deal with it.

For too long, UK energy policy has been seen as a backwater for the UK Government and its politicians – a bizarre paradox, considering the importance of energy production to the UK's wealth over the last 50 years. Perhaps though that is the point; because the UK has never had to worry about energy, policy making has often been short-term and ad-hoc. But times have changed and Britain finds itself a net importer of energy, using more than it can produce. Solutions are clearly complex and in a modern democracy, must take account of all viewpoints. But a grasping of the seriousness of the problem would be a first major step and most pointers would suggest that the process of recognising our energy vulnerability is at an extremely nascent stage.