**A global industrial economy**

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Monday, Sep 26, 2022

In May I wrote about the emerging energy and food crisis gripping the world due largely to the Russia-Ukraine conflict. The crisis continues to unfold. However, most people are aware of it only via high prices – for gasoline, electricity, natural gas, and food – and through widespread chatter among economists about inflation and what should be done to tame it.

Sadly, prices by themselves are not helpful in understanding why the crisis has emerged and how it is likely to develop in coming months. Periodic overviews of the situation that emphasize systemic causal connections and feedbacks may serve that purpose better, so consider this the second in a series of such overviews. I’ll sort information and analysis by region.

In Europe especially, the word ‘crisis’ is fully justified. Sharply curtailed availability of natural gas from Russia will not be fully compensated for by LNG shipments from the US or other gas-exporting countries. Therefore, Europe’s leaders are now discussing how to ration existing supplies – and are preparing for a worst-case scenario in which winter weather is particularly severe. Energy bills for European households may surge by 2 trillion euros ($2 trillion) early next year, according to Goldman Sachs (divided equally, that would be nearly $2700 for every adult and child).

The UK is now dealing with the consequences of its neoliberal privatization of utilities (energy, water, and rail), many of which were bought up by nationally-owned utilities in continental Europe. So far, the energy crisis is costing UK households more than those in any country in western Europe. The British government has failed to subsidize the insulation of homes, and households are highly dependent on gas for heating and cooking.

European energy ministers have told political leadership that nations must somehow reduce electricity consumption by 10 percent. Electricity prices are at record levels, with futures prices surging to ten times the past decade’s average. At such price levels, whole industries are having to shut down or consider doing so. Germany is importing coal by rail for electricity generation to make up for shortfalls of natural gas that was formerly delivered by pipeline. The country had been in the process of shutting all its nuclear power plants, but has decided to keep the last three online.

European farm and food groups fear that steep natural gas and electricity prices could lead to shortages of fruit and vegetables by forcing companies to curb production. Refrigeration is electricity intensive, and the heating of greenhouses often relies on natural gas.

In addition to electricity generation, natural gas is used for industrial purposes, often to supply high levels of heat for metallurgy, as a feedstock for chemicals, and for the manufacture of fertilizers. Compared to the US, Europe has relied more on manufacturing and heavy industry for its economic output in recent decades, so the impact of high prices on EU economies will likely be more systemic. According to reports, roughly half of steel, aluminum, and zinc production in the EU is already shuttered and facing an existential crisis.

Natural gas is also used to heat homes and buildings, and it is this application that is likely to cause the most direct discomfort to the largest number of ordinary people. Firewood is suddenly in critically short supply in France, Germany, and other countries. High gas prices through the winter raise the potential for protests and social unrest (Slovenia and Czechia are already seeing them).

Governments are trying to head off that risk with caps on the electricity rates that residents will actually be charged. But price caps will leave governments on the hook for the difference between generating costs and what households pay, possibly leading to huge spending deficits over the short term. Leaders hope to minimize deficits by heavily taxing energy companies.

One visibly prominent gauge of the seriousness of the electricity crisis in Europe: the mayor of Paris has said that lights on the Eiffel Tower will be turned off several hours earlier than usual in order to save energy.

So far, Americans have been spared the brunt of the energy crisis. Indeed, motorists have recently enjoyed lower gasoline prices due to a slump in the cost of oil, due in turn to a fall in demand from China and fears of an economic slowdown.

The US is somewhat insulated from energy supply problems because it is currently the world’s foremost producer of oil and natural gas, and has the lowest domestic natural gas prices of any industrial country except Canada.

Since March, at the discretion of President Biden, the US has been drawing down its Strategic Petroleum Reserve by a million barrels per day to moderate oil prices.

But the SPR is now at its lowest level since 1984, and there is talk of stopping withdrawals in October and starting to refill it if oil prices continue to fall. Of course, this would put some upward pressure on oil prices. As always, demand is as important as supply in determining the actual price: if a recession begins, that would reduce demand, lowering oil prices.

Global supplies of crude have remained mostly stagnant recently (after crashing, as a result of depressed demand, during the Covid pandemic in 2020). Earlier this year, after some groveling by Biden, OPEC promised a short-term bump in output, and Saudi Arabia has indeed pumped more. But OPEC as a whole has seen better days. August’s crude-only OPEC production clocked in at about 30 million barrels per day, which is over 2 million barrels per day below the high 12-month average that OPEC reached in August 2017.

Over the short run, America’s biggest fuel supply problem is likely to center on diesel, inventories of which have been declining for months and are poised to fall even further if refiners continue to export large amounts to Europe, Latin America, and Asia. Diesel, lest we forget, is the fuel of commerce.

Meanwhile, US oil production is struggling to grow. Output from the Permian Basin (the last remaining region where fracking might yield higher extraction rates) is at a record high, but elsewhere production is falling. The time is fast approaching when the Permian will no longer be able to offset declines elsewhere, and total US production will decrease, as it did during the decades from 1970 to 2010.

America’s ability to extract oil is a global economic issue, since there’s hardly anyplace else capable of increasing production and hence lowering prices. With oil prices high, one might expect a drilling frenzy in the US fracking patch, but there’s little sign of one. That’s partly due to demands by investors for oil companies to pay dividends rather than spend more on drilling. It’s also partly a result of spiking materials prices: the cost of steel pipe has soared in recent months. It’s simply getting more expensive to drill.

Annual inflation in the US is still running at over 8 percent, which is causing conniptions at the Federal Reserve. The Fed has only one main tool with which to intervene in the economy – interest rates – and the effectiveness of that tool is likely to be minimal in fighting inflation that’s being caused by novel events having little to do with the usual business cycle. Indeed, higher interest rates risk triggering a recession at least, and a debt default crisis at worst.

Excerpted: ‘What You Need to Know About the Energy Crisis’.

Courtesy: Commondreams.org