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World Oil Trade Impacts:
understanding future constraints on oil supplies

The Straits of Hormuz will forever remain the premier transit bottleneck with global economic implications. Over a million barrels of oil transit the straits each day comprising twenty percent of the world's demand. In the last century, the shift from regional to global oil sources has transformed the world as the Middle East emerged as the major provider of oil; thereby, shifting United States focus on middle-eastern politics and stability. The 1973 Arab-Israeli War and the ensuing oil embargo, placed world oil supply in jeopardy. Both critical events became the catalyst for the United States to form the Strategic Petroleum Reserves. Prior to establishing the Strategic Petroleum Reserves, there was no historical parity to the scale of energy safeguarding by any nation. The subsequent releases of stocks from the Strategic Petroleum Reserves can be counted on one's hand and correlated to significant world events, such as political or economical turmoil and wars.

Previously, the economic certainty of Persian Gulf states was solely dictated by the security of the Straits of Hormuz. With the explosion in real estate development and the progression towards free market capitalism coupled with open market exchanges, the face of the Persian Gulf has changed forever. Gone are the days of sole reliance on oil. Financial services and tourism will be the new face of the Middle East. Indeed security and stability in the Middle East remain major concerns to the region's ruling dynasties; however, the security of the flow of oil, in their mind, is not as important as it once was. Altering the middle-eastern mindset to ensure the Straits of Hormuz remain open to trade and unaffected by radical regimes will be every more difficult in the future. Japan, India, China, and an emerging Vietnam will require more and more oil from the Persian Gulf states to propel economic expansion, especially as emerging countries do not look for non-fossil fuel solutions for their energy demand. Pollution in these countries in the next four decades will dwarf what was experienced during the Industrial Revolution if forward planning for clean energy development is not adopted immediately.

New innovations and technological enhancements have spurred oil exploration and development in Africa, South America, Gulf of Mexico, and Canada. For the world powers and the emerging markets, a continuous flow of middle-eastern oil helps stabilize world prices. Yet, the impact on China in the next 40 years will be far more significant. If China continues on its path of exponential manufacturing development and continues to fuel a rising middle class, energy consumption in China will exceed all of

world's countries combined. Chinese quest for regional and, until recently, global power is indicative of their manifest destiny beliefs. Chinese view the world in hundreds and thousands of years vice the western worlds focus on quarterly and annual business progress.

America's long term partnerships with Japanese business and the recent push to develop business relationships with Chinese Government have ensured that the United States, based upon continued support of keeping the oil flow open, will forever remain in the forefront of Middle East crisis management. Religious dominance in the government of Middle East nations will continue to hamper United States negotiations. Religious intolerance in Iraq, Iran, Pakistan, Afghanistan, Saudi Arabia, and Qatar will fuel more crisis management.

The most significant energy hornet's nest of the early 21st Century will be stabilization of the global price of oil. Businesses dependent upon petroleum for manufacturing and transportation will be significantly impacted. Energy demand and oil consumption have steadily risen as the movement for renewable energy and replacing fossil fuels have not become mainstream solutions. Nations in the higher longitudes are even dependent even more so on natural gas and oil for heating. BRIC (Brazil, Russia, India, and China) will continue to push the oil consumption envelopment and more nations will join the status of emerging markets. The sensational appetite for low priced consumer goods from developed nations will continue to plague worldwide logistics. A shift to regional suppliers, if the cost based analysis proves worthwhile, will help alleviate some of the burden. The ascension of more and more poverty stricken families into financial security will continue to place demands on finished goods and global transportation. Cheaper local suppliers will be able to compete with BRIC as oil prices remain at high levels.

Investment in Emerging Markets will help balance global manufacturing decisions as the emergence of the BRIC middle classes propels the demand for consumer electronics, automobiles, finished and luxury goods. Credit programs, such as rent to own and high rate financing, in developing countries are significantly increasing the numbers of potential customers. Also, technological developments in consumer electronics have decreased production and final purchase costs. In Mexico, consumers are proud of their family names and are more willing than any other developing country to repay debts. However, exuberant interest rates, ranging from seventy to ninety percent, are the norm crushing the growing middle class.

Migration to regional and local suppliers will enhance distribution in the short term as oil prices and transportation costs remain high. Once oil prices slip to more acceptable levels, the global trend towards supplying primarily from BRIC will shift again. In the next twenty years, energy consumption from expanding manufacturing in BRIC will place significant demand on global oil supplies. Iraq and Africa will become the next oil venture frontiers as advancing oil technology and large oil conglomerates lay claim to these underutilized regions. The shift back and forth between global and regional oil suppliers will require more foresight and manipulation in energy trading.

Instability in the world framed by radical Islamic fundamentalists will place the global oil trade under attack as oil has been one of the primary ingredients propelling the western world's economy. Economic development in impoverished nations will be a significant driving force. Islamic fundamentalist recruiting in Africa will place more instability in a region that many global companies and China are placing importance.

Secure management of the strategic ocean channels and chokepoints will enhance oil price stability. Realignment of the global oil demand to regional suppliers will minimize exposure to risk of depending primarily upon the middle-east. Energy consumption in the United States must shift towards more reusable power and regional oil providers. The growing energy demand by BRIC must be addressed by the G-8 partner nations. Only until companies and consumers address their growing energy demands will reduction occur. Consumer consumption will outpace demand as more and more families emerge from poverty and more than just one meal a day is the staple. Demand from luxury items will force companies to seek manufacturing expansion into new areas such as Vietnam and Africa that have agreeable skilled and unskilled labor rates. A shift towards a green supply chain will allow companies to minimize waste, streamline distribution practices, enhance profitability, and improve public image.