

Matthew's Book Club Summary #10

By: Matthew Klippenstein

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Title: Why Your World is about to get a Whole Lot Smaller

The book club started as an informal, fun way to explore and consider business ideas relevant to our work with colleagues. The format consists of one person (usually Matthew) reading a book and writing a summary for discussion during team meetings. This allows the other team members to benefit from the book's insights, without carving time in their schedule to read the full volume.

The idea was to summarize *an interesting part* of each chapter in a paragraph or two, and where applicable, note how these could be relevant to the workplace. This provides the reviewer with practise condensing a mass of data into a few pieces of key information: an underappreciated skill. The reviews are meant to be accurate but light-hearted, on the assumption that people learn more when they're having fun.

Matthew's company gave permission for these to be distributed to non-employees as long as the employer-specific content was removed, for which he is sincerely appreciative.

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About the author:

The author, Jeff Rubin, was the Chief Economist at CIBC World Markets for twenty years. In 2000, he became one of the first "mainstream" commentators to predict soaring energy prices down the road.

The book – about a future of high oil prices – came out in summer 2009, when oil prices were inconveniently low, following the Great Panic of 2008. ☺

Notes: oil is priced in barrels. 1 barrel = 160 L (roughly)

To make it easier for readers to contextualize fuel prices in the book, I've provided approximate Canadian-dollar prices per Litre in the "Title" column, where \$\$-per-barrel prices are noted in the Summary.

| Ch | Title | Summary |
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| | Redefining Recovery \$0.25 / L \$0.50 / L | Oil production is as high as it's ever going to get. We've had really cheap energy for a very long time, but now energy is going to get expensive; that is going to change our lives. Oh, and \$40/bbl oil prices are a temporary effect of the recession. Once the recovery begins, demand will go back up, driving oil up... eventually causing another recession. (Recent oil price: US\$78) |
| 1 | Supply Shift \$0.18 / L | We've maxed out the cheap oil. We wouldn't be expanding the oil sands if there was any easy oil to be had. Long-term, the price can only drop if new production comes online, but that needs high prices to be viable - \$40, \$50, \$75 / bbl. Adjusted for inflation, oil cost less than \$30/bbl from 1985 to 2003. That era isn't coming back. |
| 2 | Demand Shift | Rich countries used to use most of the world's oil. But now, developing countries consume more. Especially the oil-exporting countries, which often subsidize gasoline in the home market. <u>They're</u> richer, and <u>their</u> gas is cheap, so <u>there's</u> more consumption. (Ah, Ms. Densford would be proud... ☺) <i>If energy demand (and thus consumption of goods and services) is growing faster in the developing world, does that mean companies could carve out sizeable niches by focussing <u>outside</u> rich countries?</i> |

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| 3 | Head Fakes | <p>Efficiency usually <i>increases</i> consumption; when things get cheaper, a lot more people buy them.* This is Jevon’s Paradox, or the “Rebound Effect”.</p> <p>In the future, energy will tend to get more expensive. The role of efficiency going forward will therefore be to make a <i>massive</i> increase in the cost of energy a <i>manageable</i> one.</p> <p>- - - - -</p> <p>* this is one reason Fords outsell Ferraris – more people can afford them!</p> |
| 4 | Heading for the Exit Lane | <p>There is no scaleable alternative to oil for transportation in the near term. Electric and hydrogen cars would need massive new power infrastructure (which would need time to be built up). It’s a real pity GM conspired to destroy all the electric streetcars, and its own EV1 project.</p> <p><i>Yep, Jeff Rubin subscribes to the GM-junked-the-EV1 conspiracy theory. ☺ A safety engineer I’ve spoken with, has argued that GM may have been worried about liabilities if a charging car was ever blamed for causing an electrical fire at someone’s house. And their decision to destroy all vehicles would’ve again be to eliminate the possibility of future lawsuits from garage tinkerers.</i></p> <p><i>Given that the EV1 project took place around the time inflation-adjusted oil prices were lower than in the early 1970’s (!) it’s also possible GM didn’t think the market would be big enough to justify working on an electric car.</i></p> |
| 5 | Coming Home | <p>Energy costs for transport effectively amount to an “import tax” for overseas goods. As energy gets more expensive, local suppliers will be increasingly competitive. Especially for bulky goods.</p> <p>e.g. Mexico – not China – will make the cheap goods for the US.</p> <p>[MK – analyses I’ve seen recently suggest that overseas shipping is much</p> |

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| | | cheaper and less-polluting-per-km than trucking, simply because ships carry 100,000's of tonnes of goods, while trucks might carry 10's at most. So the import tax argument may be fallacious.] |
| 6 | The Other Problem with Fossil Fuels | Wow, finally an economist who acknowledges global warming! Rubin suggests that a carbon tax for domestic goods, plus carbon tariffs on imported goods, would create the motivation for all countries to minimize / eliminate CO ₂ emissions. Good luck getting that through the WTO, though... |
| 7 | Just How Big <i>Is</i> Cleveland? | We're in a rare case where we can go for efficiency without worrying about the Rebound Effect. Oil will tend to become more expensive anyways. And when we're in recession, instead of bailing out the industries of the past (autos) we should focus on the industries of the future (public transit, rail...) There was a great line in this chapter: <i>"Find a strong enough wind and even pigs can fly, at least while it's blowing."</i> |
| 8 | Going Local | Rising energy prices will favour local products over global ones – local food, local factories, etc. (That's why your world will get <i>smaller</i> .) [As per the comment in Chapter 5, rising energy prices may not necessarily favour localization.] |
| | Chasing the <i>Inconnu</i> | The globalization kick based on cheap energy resulted in bland Western homogeneity, so localization based on expensive energy could mean that communities go back to adapting to their immediate environs: they'll have no other choice. That will mean we wind up living in a smaller, local-centric world, as opposed to the homogeneous global one. |