Modern world must have fuel to function and users have to pay, whatever the price

Powerful lesson with Varanus gas crisis

Bystander

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Losing gas because of the Varanus Island fire is more than a nuisance for WA industry. It's a reminder that power, and the fuel to provide power, will dominate world events in the 21st century — and should dominate your investment portfolio.

First glimpse of the critical importance of fuel came two years ago with the wholesale reallocation of food crops, such as wheat and corn, to make biofuels, an event which fitted the snappy headline: Food v fuel.

This week we saw the second act of the same play: Fuel v minerals.

In both cases fuel won because it is the one item the modern world must have to function, and users must pay, whatever the price. Without fuel, crop production falls, and without fuel mineral production declines, as Alcoa, BHP Billiton, Iluka, and others have discovered.

Many lessons will be learnt from the Varanus fire, including:

● The need for a southern strategic gas reserve as a key component of a wider State energy policy. Re-pressurising the Dongara gasfield with North-West gas would be an easy start, as would doubling the north-south gas pipeline. Industry and domestic consumers would willingly foot the bill for energy security.

● Spreading critical infrastructure. Varanus, because of sometimes ludicrous government environmental protection demands, was a common processing point for a number of gasfields in the region. A classic example of putting all your eggs in one basket. More gas centres are essential so a single event does not knock-out everyone.

The Varanus fire should also be treated as a wake-up call for spreading LNG developments along the coast rather than listening to environmentalists who want to concentrate LNG production in one point on the Burrup Peninsula, a recipe for a much bigger disaster.

Government policy decisions are beyond the influence of ordinary people. All we can do is hope they get the balance right — though given the exodus of talent from government to the private sector courtesy of the resources boom there is reason to fear that the people left behind to advise government are, well, those left behind, or those driven by an ideological agenda.

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If individuals can do nothing about government policy (or lack thereof) they can at least find a way to profit from it.

In a nutshell this comes down to another snappy headline: If it burns, buy it. Readers might remember that this was the same advice Bystander handed out in the February 9 edition of this column when it was said that: "Power is shaping as the best way to make money over the next 10 years."

At that time oil was trading at just under $US100 a barrel, but fuel-power shocks had closed large sections of the South African mining industry, Chile was rationing electricity because its hydro dams were running low and Russia was playing games with gas supplies to Europe.

Blind Freddie's dog could see then that the world had dramatically underestimated the fuel demands of the burgeoning middle-class of China and India, and fallen for the no-nuclear nonsense of the disgraced environmental movement — the same people who now oppose genetically modified food at a time when much of the world is starving, purely on the grounds that something bad might happen in the future.

Take it from Bystander, something

bad always happens in the future but it's a bit daft worrying about what might happen tomorrow when a crisis is staring you in the face today. Recognise that fuel is a key investment theme and you also recognise investment opportunities, and understand why the prices of coal and oil shares have soared.

As a point of interest it's worth noting that back in February, when the power theme was first aired here, Woodside Petroleum shares were trading at $44.85 v the current price of around $61. Santos was trading at $13.40 v $21 now.

Even if the oil price today of $US135 a barrel is a short-term bubble, the long-term price of oil, and every other form of fuel, is up.

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Selling BankWest is shaping as one of the few ways out of a very deep hole for its parent, the UK-based bank HBOS, not that it will affect the local operation because one absentee owner is much the same as the next.

But, what a sale might prove is another of Bystander's pet theories, that you can't successfully run a business with overly long supply or communication lines. History is littered with examples of how distance kills business, and military campaigns. It's either too expensive, or the wrong policies are pursued, such as Napoleon marching on Moscow in summer uniform.

BankWest, however, is a potentially rare example of the distance dilemma. It has both a remote British owner while it tries a remote-controlled expansion into Australia's east.

It's a fair bet that any new owner of BankWest will expand the east coast strategy because that's where the growth opportunities are for a business already too reliant on WA.

Where the growth is, so will go head office. When (not if) BankWest goes east, how long before Wesfarmers-Coles follows?

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Local gas and banking traumas are nothing compared to the really big issue starting to worry the world's top economists. Some can smell the death of globalisation, as we have come to love and hate it.

Until now, globalisation has been fuelled by an ability to outsource jobs (call centres in India), shift workers around willy-nilly (fly-in, fly-out) and cheaply ship raw and finished materials.

In the future, as limited fuel supplies drive transport costs through the roof the pendulum will swing back from a global view to a local view. In a mega-sense it's the advantage of locally grown potatoes over imports and it will affect everything we do and buy.

Ten years ago The Economist magazine had a famous cover story titled: Death of Distance. In terms of electronic communications that remains valid. In terms of moving anything that weighs more than an electron the tyranny of distance is back. Will the return of distance hurt Australia? In a word, no. Why? Because we are on the doorstep of the world's fastest-growing region and even if shipping costs rise it will still be a lot cheaper to steam 11 days north to Shanghai than 32 days from Brazil.

Spreading the load: More gas centres are essential for WA so that a single event such as the Varanus Island fire does not knock-out everyone