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## Energy crisis is postponed as new gas rescues the world

Engineers have performed their magic once again. The world is not going to run short of energy as soon as feared.

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Published: 5:47PM BST 11 Oct 2009

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America is not going to bleed its wealth importing fuel. Russia's grip on Europe's gas will weaken. Improvident Britain may avoid paralysing blackouts by mid-decade after all.

The World Gas Conference in Buenos Aires last week was one of those events that shatter assumptions. Advances in technology for extracting gas from shale and methane beds have quickened dramatically, altering the global balance of energy faster than almost anybody expected.



Oil shale is rock containing deposits of oil and is pictured here burning.

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Tony Hayward, BP's chief executive, said proven natural gas reserves around the world have risen to 1.2 trillion barrels of oil equivalent, enough for 60 years' supply – and rising fast.

"There has been a revolution in the gas fields of North America. Reserve estimates are rising sharply as technology unlocks unconventional resources," he said.

This is almost unknown to the public, despite the efforts of Nick Grealy at "No Hot Air" who has been arguing for some time that Britain's shale reserves could replace declining North Sea output.

Rune Bjornson from Norway's StatoilHydro said exploitable reserves are much greater than supposed just three years ago and

may meet global gas needs for generations.

"The common wisdom was that unconventional gas was too difficult, too expensive and too demanding," he said, according to *Petroleum Economist*. "This has changed. If we ever doubted that gas was the fuel of the future – in many ways there's the answer."

The breakthrough has been to combine 3-D seismic imaging with new technologies to free "tight gas" by smashing rocks, known as hydro-fracturing or "fracking" in the trade.

The US is leading the charge. Operations in Pennsylvania and Texas have already been sufficient to cut US imports of liquefied natural gas (LNG) from Trinidad and Qatar to almost nil, with knock-on effects for the global gas market – and crude oil. It is one reason why spot prices for some LNG deliveries have dropped to 50pc of pipeline contracts.

Energy bulls gambling that the world economy will soon resume its bubble trajectory need to remember two facts: industrial production over the last year is still down 19pc in Japan, 18pc in Italy, 17pc in Germany, 15pc in Canada, 13pc in France and Russia. 11pc in the US and the UK and 10pc in Brazil. A 12pc rise in China does not offset this.

OPEC states are cheating on quota cuts. Non-compliance has fallen to 62pc from 82pc in March. Iran, Nigeria, Venezuela et al face a budget crunch. Why comply when non-OPEC Russia is pumping at breakneck speed?

The US Energy Department expects shale to meet half of US gas demand within 20 years, if not earlier. Projects are cranking up in eastern France and Poland. Exploration is under way in Australia, India and China.

Texas A&M University said US methods could increase global gas reserves by nine times to 16,000 TCF (trillion cubic feet). Almost a quarter is in China but it may lack the water resources to harness the technology given the depletion of the North China water basin.

Needless to say, the Kremlin is irked. "There's a lot of myths about shale production," said Gazprom's Alexander Medvedev.

If the new forecasts are accurate, Gazprom is not going to be the perennial cash cow funding Russia's great power resurgence. Russia's budget may be in structural deficit.

As for the US, we may soon be looking at an era when gas, wind and solar power, combined with a smarter grid and a switch to electric cars returns the country to near energy self-sufficiency.

This has currency implications. If you strip out the energy deficit, America's vaulting savings rate may soon bring the current account back into surplus – and that is going to come at somebody else's expense, chiefly Japan, Germany and, up to a point, China.

Shale gas is undoubtedly messy. Millions of gallons of water mixed with sand, hydrochloric acid and toxic chemicals are blasted at rocks. This is supposed to happen below the water basins but accidents have been common. Pennsylvania's eco-police have shut down a Cabot Oil & Gas operation after 8,000 gallons of chemicals spilled into a stream.

Nor is it exactly green. Natural gas has much lower CO2 emissions than coal, even from shale – which is why the Sierra Club is backing it as the lesser of evils against "clean coal" (not yet a reality). The US Federal Energy Regulatory Commission said America may not need any new coal or nuclear plants "ever" again.

I am not qualified to judge where gas excitement crosses into hyperbole. I pass on the story because the claims of BP and Statoil are so extraordinary that we may need to rewrite the geo-strategy textbooks for the next half century.

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