The following is in response to Dan Richards’ article, How Service Screw-ups Can Create Happier Clients, which appeared last week:

Dear Editor,

After reading this article, I came home and read a post my wife had shared about another great service idea WestJet provided. Have you seen the video floating around? WestJet set up a camera with a Santa at one airport, asked people what they wanted for Christmas, then bought those things and delivered them to the passengers when they arrived at their destination airport. So yesterday, I went from having never heard of WestJet to seeing two positive stories about their great customer service and becoming a serious fan.

Thanks for Advisor Perspectives. I continue to enjoy getting great ideas from you.

Yours truly,

Neil Shurley

Marketing Associate

The Faust-Boyer Group of Raymond James & Associates

Greer, SC

Editors note: The WestJet video referenced above has been viewed over 15 million times. You will also enjoy this “blooper” video.

The following is in response to Patrick McVeigh’s article, Low Demand Will Depress Oil Prices, which appeared last week:

Dear Editor,

McVeigh’s article claims that the U.S. and the rest of the world are about to so reduce their demand for oil that prices will collapse. If that happens, it will not be good news for anyone.
The relationship between oil use and employment in the U.S. is a tight one, with an r-squared of about 0.98. The only times since World War II that American demand has declined significantly were in the decade after 1974 (especially 1979-82) and in the last five years. Both of these periods followed a massive increase in oil prices and coincided with the two worst recessions of the last 70 years. When oil gets too expensive, we can’t afford to use it at current levels, and demand drops along with a decline in overall economic activity.

In the 1980s, price levels broke due to the introduction of three large non-OPEC oil sources: the North Slope of Alaska, the North Sea and the Cantarell field in Mexico. In addition, Saudi Arabia boosted its oil extraction in 1986, pushing oil prices briefly below $9 a barrel, which contributed to the collapse of the USSR (and was possibly designed for that purpose). By the end of the 1990s, oil cost about $10 a barrel. In the next 10 years, though, the price rose by a factor of 10, and it is still priced around $100 a barrel.

This price is more than developed economies can afford to pay and maintain economic growth, so we have a long-term recession in the “real” economies of the U.S. and Europe – illustrated by high levels of unemployment, low-wage jobs and cuts in public benefits – which low interest rates and other efforts have been unable to reverse. Developing countries (most importantly, China and the Middle Eastern nations) can afford to pay higher prices than we can, so demand (or more properly, consumption) is still growing there.

It is argued that the shale-oil boom will save us. However, most oil from hydraulic fracturing, or fracking, is now being extracted from only four counties in North Dakota and fewer than 10 counties in Texas. Total oil extraction from the rest of the U.S., and indeed the rest of the world, is still in decline.

The marginal cost of oil extraction is at or above current oil prices. This is illustrated by the withdrawal of Shell and others from the shale-oil business and the slowing of capital spending by oil companies that need to repair their balance sheets. It is also illustrated by the opposition to fracking, which is a measure of the failure of the market to include all the relevant costs (including environmental and social) in pricing. If oil prices were to fall because of economic events that depressed demand, many extraction projects would be abandoned until prices went back up. The debts of the oil companies would be unpayable, the loans by big banks would turn bad and the general financial impacts would be considerable. Low prices would also be bad for OPEC nations, which need high oil revenues to support their populations and reduce social tensions.

We have a popular historical narrative that claims that coal replaced biofuels (crops and wood), then oil replaced coal and now natural gas (or windmills) will replace oil. The facts contradict this assertion. The world’s greatest consumption of biofuels was in 2012. The greatest consumption of coal and oil was also in 2012, and the same is true for natural gas, wind and solar. (The only exception among major energy sources is nuclear, which had its recent maximum in 2006.) We haven’t given up any source voluntarily.

McVeigh’s conclusion about the investment value of fossil-fuel companies may still be accurate. The major oil companies have not been able to maintain their level of extraction or fully replace their reserves for more than a decade, despite high prices and considerable investment in exploration and
development. Further, there is now a growing understanding from people concerned about fossil-fuel use, rising CO2 levels and rising global temperatures that humanity cannot use all the existing energy “reserves” and meet international climate targets. If current non-binding emissions targets become public policy, then many of the assets of these companies could be severely impaired and their stock values would drop.

There are many forces that could lead to higher oil prices, collapsing oil prices or volatile oil prices. We can expect public policies to be involved, from carbon taxes to subsidies. We don’t know how it will play out. What is unlikely, however, is that we will simply decide we no longer want to use petroleum to move things around an otherwise-prosperous world.

I am happy you continue to publish articles on these important issues, because all advisors need to take potential resource limits into account as they make plans for their clients.

Sincerely,

Richard Vodra

President

Worldview Two Planning

McLean VA