

STORM WARNINGS

Vol. 3, Issue 4

The Perfect Storm in 2014



R. Michael Conley
Founder

The *Storm Warnings* newsletter is part of a larger initiative by its founder, R. Michael Conley, to carry the message to others.

"The message is frightfully simple: We are heading into a perfect storm that will forever change our lives, and we need to act on it while there is still time," said Conley.

Under the overall umbrella of his company, Weathering the Storm, LLC, its mission to *awaken, engage and help others weather the storm* is carried out in a number of ways.

The Tip of the Iceberg: The Perfect Storm in 2014

The forces of the "*perfect storm*" continued to escalate in an insidious and stealth-like manner in 2014. Malignantly growing and hidden – metaphorically speaking – beneath the waterline of an "iceberg" called *life*, we fixated on the tip of the iceberg and overlooked the real threats lurking below. In this issue, R. Michael Conley, the publisher, takes us below the waterline – with several links to recent articles – for a sobering assessment of the *perfect storm's* progression in 2014 and implications thereafter.

WTS: Why do you use this "*tip-of-the-iceberg*" analogy to describe the growing perfect storm threat?

Conley: It fits. As humans, we're hardwired to focus on the obvious; the tip-of-the-iceberg and not the 90% of its mass hidden beneath the waterline. While understandable, it obscures the big picture, impedes our ability to identify risks we can't readily see, and impairs our ability to respond to longer term threats effectively.

A number of below-the-waterline threats occurred in 2014 that pushed us closer to the perfect storm; they went unnoticed or were ignored. Let me mention a few.

WTS: Before starting, we have a number of new subscribers that might not know what you mean by the "*Perfect Storm*." Can you comment on this?

Conley: Gladly. It metaphorically describes how tectonic-sized forces on a collision course will collide and spark a chain reaction leading to a perfect storm – a life-changing event. For simplicity, the storm forces can be broken down into four generic categories: 1) Energy, 2) Ecological and Environmental, 3) Economic and Geopolitical and 4) Expectations and Behaviors. These "4-E" forces were all actively at work and exponentially growing in 2014.

WTS: Okay, let's start with your first "E" – Energy; what's that all about?

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"The *Storm Warnings* newsletter, which provides an in-depth quarterly look at a specific topic, is one way we hope to awaken and engage people, but we encourage folks to log in to our web-site for a full menu of offerings and services," Conley said.

(www.weatheringthestorm.net)

The website will provide further details on other initiatives. Among them:

1. Lethal Trajectories – Conley's futurist novel on what it will be like to live through a perfect storm crisis
2. *Weathering the Storm Guide* – A guide on how to prepare for the storm
3. Weathering the Storm Seminars – In-depth seminars that are now available
4. Blog, links, other resources, and the Storm Warnings newsletter.

About the Founder: Mike Conley is the Founder of Weathering the Storm LLC, and currently serves as Chairman and CEO of the Conley Family Foundation. As a former Fortune 500 business executive, author,

Conley: The big energy stories in 2014 were, of course, the trifecta combo of plunging oil prices, a perceived "glut" of oil and America's new "shale oil revolution." Many euphorically believed that cheap and abundant oil was our new norm, and it dampened our quest for renewable energy and fuel-efficient cars; a huge mistake. (See: "[Oil's Unsustainable Surge](#)")

The story below the waterline was quite different: Here, the immutable laws of geology were confirming that our *endowment* of oil had *finite* limits and that production from existing fields was declining at a rate of over 5% per year. Though we were finding better ways to "extract" more oil from complex formations, we were powerless to "produce" more oil than that which was already in the ground. Once it's gone, it's gone.

Here's the dilemma: Our global supply of lower cost, *conventional* crude oil has plateaued at about 75 million barrels a day against a current daily demand of 92 million barrels. The 17 million barrel shortfall is mostly made good from the costlier extraction of *unconventional* oil from tar sands, shale, and deep-water formations.

Plummeting oil prices have exposed this weakness: Simply put, shale and tar oil producers cannot drill for new oil at market prices much below \$65-70 per barrel or more. Bottom line: As the mix of unconventional oil increases, we can expect to pay more – far more – for oil in the future. (See: "[An Unconventional Truth](#)")

WTS: How does all this square with the "Shale Oil Revolution" in America?

Conley: As a short term proposition, shale production has both surprised and destabilized the global oil markets. In the longer term, it may prove to be more of a "feel-good" placebo than the panacea that Wall Street and others would like us to believe it is.

Shale oil – an unconventional oil – has a geologic profile that requires horizontal drilling and a massive fracking "enema" that produces an immediate gusher of oil. Conversely, it has a rapid decline rate with a limited shelf life of about two years – after which it produces very little. In the near future, it will require a disproportionately higher

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lecturer, and public policy activist, Conley has written and spoken frequently on topics related to the perfect storm. He graduated from the University of Minnesota, after serving in the United States Navy, and later completed a post-graduate program at Stanford University. He is also active on several boards and advisory groups.

amount of drilling capacity just to replace declining production from existing wells – let alone grow it. So no, it's more of an "ambush" than a revolution. (See: ["Shale Oil: Not What it's 'Fracked" up to Be..."](#))

WTS: Where does that leave us and how does our oil addiction fuel the perfect storm?

Conley: Oil is used to fuel about 93% of our transportation system. This, in itself, makes us vulnerable to the vagaries of the oil markets – our *Achilles Heel*, so to speak. As we become more dependent on costlier unconventional oil to meet demand, the rising cost structures will create an increasing drag on future economic growth.

Paradoxically, we have the renewable and alternative fuel technologies to transition away from oil, but it takes a long, long time to build the *scalable infrastructures* needed to support them. We're in a race against time to build these infrastructures before the price of oil torpedoes the economy but don't seem to know it; still another below-the-waterline issue.

WTS: Enough said about energy; what about the environment – specifically, climate change?

Conley: It's a timely question considering that 2014 was the hottest year on record since we started recording temperatures. In Fact, nine of the ten hottest years occurred in this century – debunking the myth that temperatures have not changed. Unlike energy, the climate change warning signs are highly visible with measurable feedback almost everywhere.

Record temperatures, steeper increases in CO² levels, rising sea and ocean acidification levels, glacial and polar ice melts, and other satellite and ground measurements confirm its progression. The increasing frequency and severity of major weather-related events, droughts and floods now seems to be registering on the public's radar screens. (See: ["Climate Change: Denial is not a Strategy"](#))

WTS: Okay, if our climate awareness level goes beyond just the "tip-of-the-iceberg" stage, what's the problem?

Conley: The problem is with our inability to grasp how fast the climate change forces are developing and how quickly they can turn into irreversible tipping points. We're hardwired to think in linear – not exponential – terms, and it's hard for us to imagine how something so vast could so quickly and permanently change. There's little sense of urgency.

On the surface, there were some encouraging signs: China and the U.S. reached an historic climate

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change agreement; the Senate voted 98-1 that climate change was for real – and not a hoax. The White House and EPA also instituted a number of domestic clean energy initiatives, but it is well to remember that executive actions taken by one administration can be quickly dismantled by the next. (See: ["The Political Paradox of Climate Change"](#))

WTS: Let's move on to your next "E" factor, Economics and Geopolitical forces: What's happening in this arena?

Conley: Some of the most blatant examples of over-fixating on the tip of the iceberg – to the exclusion of almost everything else – occur in this area. There are major shifts occurring in our domestic economy, the global economy, the global balance of power and in the new asymmetric threats that are changing the playing field. The volume and velocity of change is outpacing our speed of comprehension, and the threats of a miscalculation with unintended consequences are high. (See: ["Myopic Market Madness"](#))

WTS: Okay, let's start with the domestic economy: What's the problem?

Conley: We're living in "La-La" land; spending money we don't have for things we don't make – using borrowed dollars and passing the debt on to future generations. We're also squandering finite resources and promising entitlement benefits that are under-funded; a fact that is becoming abundantly clear as we now watch 10,000 new baby-boomers retire every day.

Government debt is skyrocketing and the interest paid just to service that debt will climb to over \$500 billion per year in 2020 according to the CBO. When coupled with escalating entitlement costs, there will be far less available to fund all other government activities and it will require more money-printing, taxing and borrowing to make ends meet. The purchasing power of the dollar will erode with a crushing hardship on folks with a fixed income.

Our political leaders claim victory when a fiscal year deficit is cut in half – forgetting that "debts" and "deficits" are two different things. A deficit reduction from, say, \$900 to 450 billion dollars still means we spent \$450 billion dollars more than we took in. The \$450 billion dollar deficit is then added to the national debt. Some "victory," isn't it?

Our Federal Reserve, on steroids, has "printed" money and created a virtual zero interest rate environment to stimulate growth. It has led to a reduction in the interest paid on savings and CD's, and it has caused investors to flock to the equity markets in pursuit of a higher yield. Good for Wall Street, perhaps, but not much of a trickle down for a shrinking Middle Class. It may look good on the surface, but below-the-waterline it's a house of cards.

WTS: What about globally?

Conley: The world is living on the edge of a gigantic credit bubble ready to burst. The global economy

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is stagnant – causing Central Banks throughout the world to devalue their currencies in a frantic effort to stimulate their respective economies. There’s no free lunch and like a giant Ponzi scheme, it will work until it doesn’t work – then watch out.

The global economy giveth and the global economy taketh away. It’s so intertwined that it only takes a default or some other Black Swan event to trigger an economic chain reaction of catastrophic proportions. It almost happened in 2008, and now that we’ve used most of our economic bullets to recover from that one, it’s hard to imagine what will be left to prevent the next global meltdown from unfolding.

WTS: What about the geopolitical front: What happened in 2014 to fuel the perfect storm?

Conley: 2014 was a watershed year. First; the seeds of a new Cold War have been planted. The last one was fought over ideology; this one will revolve around markets and control of scarce resources. China is now a global superpower that can rival the U.S. on any front and Russia – the world’s second largest nuclear power – has flexed its muscles. The two countries, in fact, are partnering up, as evidenced by their recent blockbuster energy deal. They offer an alternative to countries not interested in aligning with the West. (See: [“The Ukrainian Ripple Effect”](#))

Second, ISIS represents a threat that wasn’t even on our radar screen a year ago. As a part of a broader milieu of interconnected Middle East events – the Arab Spring, Sunni/Shiite “civil war” and Iran’s quest for nuclear power – the moving parts are almost too complex to fathom.

Last, the asymmetric threats have escalated dramatically. Currency “wars” are heating up (See: [“Our Dirty Little Secret”](#)), and cyber-warfare is putting tens of millions of people at risk with each new hacking breach. The threat level will escalate as attacks on sensitive energy grids, infrastructures and critical information systems become more diverse, sophisticated and dangerous.

WTS: Many of these geopolitical threats are above the waterline. What about those below it?

Conley: The world’s global problem-solving approach has become obsolete with its “zero-sum game” mentality that says one side can only win at the expense of the other. Global issues like climate change, water shortages, energy, and cyber threats require collaborative solutions. Instead, we’re preoccupied with “gaming” the system and looking for an edge – a sure prescription for disaster.

In this fast-changing, high tech world of new paradigms, the risk of a miscalculation with unintended consequences has never been higher. Ad hoc solutions often cause more problems than they solve, and the interconnected nature of the perfect storm threats requires that they be approached in their totality. To be sure, it’s a new ballgame with undefined rules.

Domestically, our ability to act is impeded by vested interests, political gridlock and a chronic myopia

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that is almost paralytic. Passing the buck and/or pursuing low pain, quick fix solutions usually trumps out thoughtful, longer term strategies. (See: "Management by Crisis")

WTS: What about the last E- factor; Expectations and behaviors?

Conley: This one is about the *American Dream* and erosion of the *dream enablers* that made it all possible – things like cheap energy, abundant resources and unlimited opportunity. Case in point: The millennials are the first generation to not expect to live as well as their parents.

Student loans and a marginal job market have put a damper on their dreams. And, in our "*play now-pay later*" culture, they've inherited a national debt that will severely limit their options and opportunities in the future. The climate change and resource depletion legacy we're leaving them is still another *mortgage* on their American Dream.

The greatest, below-the-waterline time bomb here might be is the growing disconnect between our expectations and reality. We are in the *twilight zone* of a paradigm shift we don't understand and will flounder until we face reality as it is and act accordingly.

WTS: You are delivering a tough message; is this really what you want to say?

Conley: It's not what I want to say, but I would be less than honest not to say it. Look, we live in a complex world and our leaders are either unaware of or reluctant to tell it like it is. We get a steady diet of spins, sound-bites and media hype and don't always bother to siphon off fact from fiction. Sadly, an apathetic public may be the greatest threat of all.

I'm not sugar-coating it because I have tremendous faith in what we can do if we will but awaken to the perfect storm threat and engage in a meaningful way. There's much we can still do if we are willing, but we're running out of time. We need to start now, today: If not for ourselves, then for the generations following us. It's called intergenerational responsibility.

For more information on things we can do, please revisit our website at:

www.WeatheringtheStorm.net