



Notes

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AskBeevs - Energy Crisis Modelling SPECIAL

Summary

AI learning session detailed global fuel issues impacting Australia's economy and financial stability with a focus on geopolitical tensions, supply chain disruptions, and critical domestic shortages.

Global Fuel Situation Analysis

Analysis of global oil production and the geopolitical conflicts in the Middle East indicated that the closure of the Strait of Hormuz will critically impact Australia, which receives nearly 100% of its oil from that region. Public data showed a 48% reduction in Saudi Arabian oil production, with other key facilities in Iraq and Iran also shut down.

Simulation of Australian Economic Impact

A simulation model predicted massive flow-through effects on Australian industry, with key sectors like mining, freight, and aviation capacity dropping by 50% under a contested scenario where the conflict continues. This crisis would cause the federal budget to flip to a large deficit, increase bond yields, and crash the Australian dollar.

Critical Domestic Shortages and Risk

The discussion highlighted that the combination of supply blocks and increased prices for essential resources, such as a projected near-doubling of diesel prices and an 11% rise in MAP fertilizer, is creating a high-risk scenario. Specific concerns were raised over the critical pre-seeding fertilizer window and a confirmed subset of grain growers choosing not to plant this season due to fuel availability concerns.

Details

- **Introduction and AI Learning Group Overview:** Timothy Beevor welcomed attendees, noting that several were new to the weekly AI learning sessions. They mentioned that all recordings from the previous 10 to 12 sessions are available for free on the askbes.com website. The primary topic for this session was the global fuel situation, which Timothy Beevor has been monitoring since late last year.
- **Personal Preparation for Fuel Situation:** Timothy Beevor shared that they had anticipated potential fuel issues, noting that they sold a utility vehicle and purchased a couple of electric vehicles (EVs), which they acknowledged was an unlikely move for them. To explain the current situation, they proposed starting with a global map showing oil output regions.
- **Global Oil Production Breakdown and Geopolitics:** The breakdown of global oil output was presented: North America (30%), the Middle East (31%), Russia (14%), Asia-Pac (10%), and South and Central America (8%), with little oil in Europe. Timothy Beevor detailed the situation in Venezuela, stating that US military forces were deployed, leading to the removal of Nicholas Maduro, and that Venezuelan oil is now moving up to the Gulf Coast.
- **Middle East Oil Conflicts and Closure of the Strait of Hormuz:** Timothy Beevor discussed military movements near Iran and the oil-rich Middle East, citing the closure of the Strait of Hormuz. While thousands of ships normally pass through the strait, it is now mostly closed for all intents and purposes.
- **Australia's Oil Supply and Regional Dependence:** Australia receives most of their oil from South Korea, Japan, China, Malaysia, and Singapore, which are the locations of large mega-refineries. Although the Middle East only accounts for 20% of the world's oil, it supplies nearly 100% of Australia's needs, meaning its closure will significantly impact Australia.
- **Oil Production Downturn in the Middle East:** Based on publicly available data, Timothy Beevor showed a prepared analysis highlighting the impact of the conflict on key oil facilities. They noted that Saudi Arabia's oil production was down by 48% at the time of the analysis, and facilities in Iraq and Iran were significantly shut down or hit, with some wells capped, which can take 6 to 9 months to bring back online.
- **Simulation of Fuel Impact on Australian Industry:** A simulation was presented to model the flow-through effect of the supply chain disruption on Australian consumption, particularly in mining, road freight, and aviation. In a "resolution" scenario where the war ends on day 26, the model showed that mining, freight, and aviation capacity would drop quickly before slowly recovering because repairing wells takes time.

- **Contested Scenario and the Davidson Window:** Under a "contested" scenario where fighting continues and the strait remains closed, key sectors would fall to 50% capacity even after 130 days, taking years to recover. The discussion shifted to the "Davidson window," a period where China might attack Taiwan, which is critical due to Taiwan's role in producing 90% of the world's chips for AI and robotics.
- **Geopolitical Strategy: Economic Pressure on China:** A model was presented to assess the impact of shutting down the Strait of Hormuz for six months, which would drastically reduce Asian refinery feedstock, thereby bleeding China of its oil supply. The analysis showed that a 73% total supply reduction would leave Australia at only 17% of its baseline fuel need, causing massive drops in mining, freight, and agriculture output, leading to billions in revenue loss and substantially reducing China's iron ore imports and steel production.
- **Financial Strategy and US Debt Refinancing:** The economic chaos caused by the fuel crisis forces Asian countries to buy US dollars to purchase oil, which is priced in petrodollars. This, in turn, may compel those countries to sell US treasuries and bonds, allowing the US to buy back its debt at a lower value, effectively refinancing its debt and potentially preventing a Chinese invasion of Taiwan by crippling the Chinese economy.
- **Domestic Implications for Australia and Emergency Measures:** Australia is seen as "the glove on the boxing punch," bearing the immediate economic pain as the flow-through impact hits. If a crisis were to unfold, the federal budget could flip from a surplus to a large deficit, bond yields would rise, the Australian dollar could crash, and inflation would surge. Timothy Beevor suggested that the Fuel Security Act may be invoked to separate essential and non-essential fuel, allowing for price setting on essential fuel (e.g., farming) while leaving consumers to face potentially much higher prices for non-essential fuel.
- **Developing AI Models for Risk Analysis:** Timothy Beevor demonstrated using AI to build a risk analysis model for the Iran conflict and its impact on the oil supply chain. They tasked three different AI agents—Claude, Claude Co-work, and Replit—to model the current status of oil terminals, throughput, refinery supply, and the impact on Australian and Chinese critical mineral/ farming exports.
- **Discussion on China's Fuel Reserves:** Bruce and Timothy Beevor discussed China's fuel supply, which Timothy Beevor initially estimated as a year's worth. However, checking the data via Perplexity indicated that China's oil supply was only 13 to 17 weeks, meaning they would be impacted relatively quickly by supply issues. Timothy Beevor noted that they were

incorrect regarding the year-long supply, and the data suggested the situation was worse when considering liquid fuels versus crude oil.

- **Impact on Australian Exports (Agriculture):** The conversation shifted to Australian exports, with a focus on agricultural products. Data suggested a negative impact, including a 13% decrease in beef and wheat exports, and a 5% decrease for wine. Bruce pointed out that without exports, the price for the grower would decrease, leading to potential viability issues for them.
- **Australian Fuel Supply Forecast and Sector Impact:** Timothy Beevor presented data related to Australian fuel supply forecasts, indicating that the nation was already experiencing a stressed forward fuel supply situation. The fuel supply forecast for key sectors like mining and agriculture showed a downward trend. However, Timothy Beevor cautioned that the data was generated quickly and might be estimated, as a previous, more detailed analysis had been conducted manually.
- **China's Global Strategy and Energy Security:** Bruce and Randal Tait discussed China's efforts to secure resources, questioning why they had not done so previously. Randal Tait explained that China has been working on securing oil through initiatives like the Belt and Road, including establishing pipelines through Pakistan to bypass American-defendable transit routes near Singapore. This strategy aims to improve their energy security and avoid naval blockade risks.
- **Price Increases for Essential Resources:** Timothy Beevor highlighted significant price increases for critical supplies, with diesel prices projected to almost double, and the MAP fertilizer price up by 11%. They also noted that the ammonia plant was offline due to an explosion. Bruce observed that the timing of these incidents was very interesting.
- **Fertilizer Supply and Critical Seeding Window:** The discussion addressed the Australian diesel supply, noting a potential deficit of 2.5 billion liters, and the critical shortage of fertilizer. They identified April and May as the peak period for fertilizer application in the southern hemisphere, suggesting the conflict's timing was the worst possible for Australian agriculture. Timothy Beevor concluded that Australia is currently in the critical pre-seeding fertilizer window and must act immediately.
- **Flow-Through Effects on Local Prices and Food Security:** Timothy Beevor presented the risk severity for various commodities, including wheat, barley, cotton, red meat, and vegetables. They suggested that all these risks must flow through to local prices. Timothy Beevor advised listeners to consider buying a freezer and storing food as an investment.
- **Supply Blocks and Grower Decisions:** The analysis indicated that 25% of Australia's urea supply is blocked, and 15% is under *force majeure*.

Furthermore, a confirmed subset of grain growers will not plant this season due to concerns over fuel availability. Timothy Beevor added that the Treasury impact is modeled at a 2.3% quarterly GDP reduction.

- **Socioeconomic Impact Modeling and Comparison to COVID:** Timothy Beevor suggested modeling the difference between the current crisis and the COVID situation across standard life categories and industry sectors. Randal Tait shared their own modeling experience from the mining industry in Perth, which projected extremely high unemployment starting with a "two" and rising to a "three" due to lack of diesel and gas for mining operations. Troy Ramke confirmed that the construction industry is already seeing horrific component price increases of 20% to 35%.
- **Risk of Supply Shortage vs. High Price:** The speakers discussed whether the primary issue would be the price of diesel or its absolute unavailability. Timothy Beevor and Randal Tait emphasized that the problem is physical unavailability, as Texas refineries are at 100% capacity and cannot supply the global market. Randal Tait mentioned that the Australian government will likely underwrite the cost of ships to secure fuel, as they will compete with other countries.
- **Impact of Increased Costs on Construction and Consumers:** Troy Ramke detailed how fixed-price contracts in construction are now unaffordable, leading to potential mass bankruptcies for builders. Randal Tait explained the downstream effect, noting that consumers with homes under construction could face bankruptcy, potentially causing house prices to tank. David Hemmings confirmed a sharp drop in discretionary spending, citing a significant reduction in bookings for their escape room business.
- **Long-Term Financial Consequences and Preparations:** Timothy Beevor suggested the crisis could lead to a financial reset, as widespread industry collapse would affect banks and mortgages. Timothy Beevor advised against holding derivatives or excessive leverage, as banks might become capital-constrained and adjust risk positions on existing mortgages. They also recommended preparing for protection by securing warmth, food, and alternative transport.
- **Government Response and Economic Reset:** Timothy Beevor predicted that the government might impose measures similar to the COVID lockdown, but without the ability to print money due to the energy crisis. They suggested the government might choose a "brutal" approach as part of a reset, possibly allowing bankruptcies. Timothy Beevor advised having a clear view of the situation, not trusting government statements, and walking towards the new work opportunities that the crisis will create.

- **Alternative Living Strategies and Skills:** Bruce and Timothy Beevor discussed the importance of trading skills or labor for produce. Randal Tait suggested the option of moving to countries with stable governance, power, water, and food sources, noting that some South American countries offer cheaper visas and housing. Timothy Beevor noted that theft would likely increase dramatically in large cities.
- **Document Creation and Supply Chain Vulnerabilities:** Timothy Beevor generated a document detailing the crisis differences compared to COVID and listing various risks, including diesel rationing, empty supermarket shelves, and construction delays. Bruce and Troy Ramke discussed the significant price increase for PVC conduit and its derivatives. Timothy Beevor noted that manufacturers are already running out of resins for PVC production.
- **Personal Preparedness Checklist:** Timothy Beevor advised individuals to make a list of everything needed for the next 18 months and acquire those items immediately, before the public realizes the extent of the shortages. They recommended bridging potential shortages by securing non-perishable food and necessary medicines, ensuring prescriptions are filled. Timothy Beevor also suggested securing power station batteries for potential power outages and investing in Starlink for connectivity due to potential frailty of the NBN system.
- **Impact on Specific Sectors and Moving to EV Technology:** Timothy Beevor confirmed that regional tourism would be severely impacted, but data centers appeared okay. The group discussed the shift to electric vehicles (EVs) for personal transport, with Timothy Beevor explaining the financial benefits and simplicity of fully electric cars over hybrids. Randal Tait shared an experience that indicated that hybrid Utes, like the BYD Shark, are ineffective for serious towing due to low electric range and poor fuel economy when running on the small gas engine.
- **Personal Decision to Switch to EV:** Emma Ferguson shared their experience of overcoming a prior preference for a Hilux to purchase a full EV Toyota for securing movement, especially for caring for family members. They also expressed concern for a client whose medical equipment relies on a diesel generator. Timothy Beevor advised that if people need their car for work, switching to an available EV might be a smart move, as waiting for supply chains to normalize is risky.
- **Logistics Industry Outlook:** Bruce questioned the challenges facing logistics companies, like Linfox, regarding fuel use. Timothy Beevor explained that logistics companies typically have contract mechanisms to pass fuel costs onto clients, so their liability is fine, but their revenues will likely collapse as

clients stop doing business. They noted that the trucking fleet might become unfunded if it is not running.

- **Meeting Conclusion and Next Steps:** Bruce thanked everyone for their participation. Timothy Beevor confirmed that the next meeting would not be the following week due to Easter holidays and they would send an invite for the subsequent meeting.

Suggested next steps

Randal Tait will send a copy of the paper about the Davidson window to Bruce and anyone else who wants one.

Timothy Beevor will email the document discussing the differences between this crisis and the CO situation to Bruce or put it in the chat.

Timothy Beevor will let the group know when the next meeting is planned.

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