THE DANA VIEWPOINT

OILYMPICS

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Well, here come the oil companies reporting record profits, and Congress is right on their heals racing to protect the consumer from price gouging. This will be the seventeenth time in the last decade that Congress has held an inquiry into possible price gouging by the oil companies. The first sixteen turned up a big fat **NO** and this one will do the same. Now, we believe that the people in Congress are smart, but they are also politically motivated, and that is why we end up with regulations that enhance our energy problem. The problem is simply a matter of supply and demand. Worldwide economies have been booming the last four years, particularly in China, India, Brazil, Columbia, Ireland and even the USA. Oil is the major source of energy that drives these economies, and very simply put, supply cannot keep up with demand and like anything else when this occurs prices escalate. So why does Congress make it so difficult to increase supply? Consider the following:

1. The world uses 86 million barrels of oil a day, up from 67 million in 1990.
2. The United States now imports about 60% of its oil, up from 42% in 1990.
3. Five of the top fifteen oil producing nations exist in the Western Hemisphere. Major oil discoveries have been made in Brazil, Columbia, Peru and Mexico. Columbia is our ninth largest oil supplier, and Brazil our 11th largest and they are moving up in the ranks of our suppliers. Venezuela accounts for 12% of US oil imports. We need to strengthen our ties with the other South American countries, as Hugo Chavez is doing his best to disrupt our relationship especially now with Columbia.
4. At least 20 billion barrels of oil sit untapped in Alaska and another 30 billion lie offshore.
5. The US has about 30 billion barrels of proven reserves today. The US has 656 trillion cubic feet of natural gas and 112 billion barrels of oil in Federal hands alone.
6. The US hasn't built a new oil refinery since 1976 which leads to price spikes in gasoline when a refinery is temporarily shut down.
7. Nuclear power provides 20% of our electricity production. In France, it is 80%. Nuclear is cheap, and it burns clean. There have been no nuclear accidents in France, and they have now found ways to recycle nuclear waste.
8. According to Ernst & Young, from 1992 to 2006, the US oil industry spent $1.25 trillion on long-term investment vs. profits of $900 billion. Further, in 2007, oil companies earned 8.3 cents per dollar of sales. Beverage and cigarette makers earned 19.1 cents, drug makers 18.4 cents, and all manufacturers on average 8.9 cents per dollar. That doesn't seem like windfall profits. In any event, a further tax on

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the oil companies would increase the cost of oil and would further crimp the economy and hurt the middle class more than any group.

9. We are becoming much more efficient in our use of oil. Energy Department statistics show the demand for gasoline consumption has risen 1.5% a year from 2000 to 2006 but edged down 1.4% last year.

Now, we are as concerned about the environment as the next person, but advances in technology have allowed us to extract and use oil and other sources of energy without harming the environment. The only way we can become energy independent is to take advantage of this technology. We are in a race between supply and demand, and our future economic growth depends on the outcome.

How can we be so bullish in America? Mainly because the playing field is leveling off. The sub-prime mess and the credit crisis will abate and the dollar will stabilize. The drop in value of the dollar has not only aided our exports but has brought it more in line with where other currencies were a decade ago. This has had a major impact on our competition with China. Whereas they were exporting deflation (due to low cost goods) they are now exporting inflation. The value of the Chinese Yuan has been driven up by over 10% in the past year, and China admits to a 6% inflation rate (which means it is probably higher). Add the two together and you can see how we are now much more competitive. Those American companies that stayed home and built new, more efficient plants will now reap the rewards while those companies that fled to China will now be facing higher production costs. Many foreign companies have recognized what is happening and are building plants here to take advantage of this trend and to be near the consumer driven US economy. Remember we have a $14 trillion economy vs. $1.5 trillion in China. They have a huge potential market and now that the playing field is leveling, we will be able to export more goods and services there. Remember too, that we have the most skilled labor force in the world in addition to being on the leading edge of technological advances. Prepare yourself for the next boom in the US economy. Only Congress can stand in the way.

Random thought for May:

The price of oil is a function of growth, not a hindrance to growth.

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