

# Tea Leaf

...weekly since 1976

December 6, 2006

[view previous issues](#)



Thredgold Economic Associates  
(The TEA Company)  
A Professional Speaking and  
Economic Consulting Company  
136 South Main Street, Suite 417  
Salt Lake City, UT 84101  
(801) 533-9663

[www.thredgold.com](http://www.thredgold.com)

Copyright © 2006 Thredgold  
Economic Associates, LLC.

Please call 1-888-847-3346  
for reprint permission.

## Energy

Written by Jeff Thredgold, CSP, President, Thredgold Economic Associates

The U.S. imports roughly 60% of the oil used in this nation every day, a higher share than ever before. One positive aspect of this reality is that the primary sources of oil are more diverse than was the case during the heyday of Middle Eastern OPEC nations in the 1970s, which contributed then to the effectiveness of an oil embargo. Still, much of the globe's oil is under the control of nations who are not especially friendly to the U.S., including Iran and Venezuela.

Oil prices during much of 2006 have been above \$60.00 per barrel, with a significant time where prices ranged between \$70.00 and \$78.00 per barrel.

Various forecasts of oil eventually moving to \$100.00 per barrel and above are prevalent. We continue to suggest that oil prices will eventually settle around \$50.00-\$65.00 per barrel.

Why? Because the Saudis, still the world's largest producer of oil, do not want prices sharply higher. Oil prices north of \$70.00 per barrel raise the voices of those proposing greater use of natural gas, greater use of coal, greater use of nuclear energy, and greater moves toward energy conservation.

Prices north of \$70.00 per barrel enhance the call for more urgent moves towards hybrid and electric cars, more rapid use of new clean-burning diesel powered cars, more rapid development of hydrogen cars, and greater utilization of wind, solar, and geothermal sources of energy. High oil prices boost investment and government subsidies for ethanol development in the Midwest, with more urgent planning to utilize corn, grasses, weeds, and methane to generate energy.

High oil prices raise voices of those proposing greater investment into development of energy-rich oil shale deposits in the Mountain West, with rising interest in

investing into and agreeing to purchase greater amounts of oil drawn from energy-rich Canadian tar sands. High prices enliven discussions regarding all means of reducing the usage of foreign oil and developing any and all promising forms of oil alternatives.

High prices enhance arguments about the merits of developing oil and natural gas reserves in the Arctic National Wildlife Refuge (ANWR). High prices boost interest in finding

and developing promising sources of oil and natural gas off the Continental shelf, as well as making high cost exploration and production in the

deep waters of the Gulf of Mexico more financially appealing. More optimistic voices talk of a national commitment to a Manhattan-style program to once and for all replace volatile foreign sources of energy, while making the U.S. much more energy self-sufficient.

The Saudis do not want us having these discussions. The Saudis are the primary swing player in regards to global oil output. They have and will continue to boost (or limit) oil production with the intent of maintaining prices in the

**...the Saudis, still the world's largest producer of oil, do not want prices sharply higher**



\$50.00-\$65.00 per barrel range. Such a level is one that both oil producers and oil users can live with, without providing the powerful incentives that much higher prices would in terms of developing oil alternatives.

A shortage of oil is not an issue. Recent estimates have sharply boosted proven and projected reserves of oil. Advancements in technology will allow a greater percentage of oil to be extracted from existing wells. Advancements in technology will enhance the means of reaching oil in formerly impossible locations, including miles below the ocean's surface. Advancements in technology will boost the energy efficiency of new automobiles, new homes, and new buildings constructed across the nation.

The future of energy will increasingly be found in those ideas we dream of today. OPEC's best days are in the past.

## Different Views

The *consumer* in me would like to see energy and gasoline prices lower, with more traditional costs near \$2.00 per gallon at the fuel pump. The *economist* in me would love to see prices rise to and stabilize around \$100.00 per barrel for three to four years. Such high prices would not likely lead to recession, but would provide the most powerful and most urgent incentives ever for Americans to get a better handle on U.S. sources of energy.

Such high prices would strengthen the American mindset that more oil and natural gas can be found in domestic locations and that greater successes in developing alternative sources of energy are available. High prices would provide the incentives to design and implement conservation steps that could be more effective in minimizing energy consumption in all types of appliances. Modest changes to construction procedures could help to minimize energy consumption in new homes, office buildings, and industrial sites.

Such high oil prices would aggravate the already high U.S. trade imbalance with the world. However, likely successes in trimming dependence on foreign sources of energy would, over

time, lead the trade imbalance lower as our foreign energy bill declined.

Renewable sources of energy, including wind, solar, and geothermal, are unlikely to ever provide more than a minor share of overall energy. However, any positive changes are helpful. Each technological breakthrough in regards to more efficient and more cost-effective solar panels and more efficient wind turbines are all part of the solution. Technological enhancements to ethanol fuels (including changes to lessen the massive usage of water for each gallon of ethanol ultimately produced), coal liquification and coal gasification, hybrid automobiles, and hydrogen-based cars all contribute to a future less dependent on hostile foreign sources of energy.

What it takes is a nationwide commitment to such a goal. A consensus among and between government, private companies, and the American people is the first critical step in such a process. Higher energy prices would make that commitment easier.



## “TEA”sers

### Daffynitions:

Yawn: An honest opinion openly expressed

Wrinkles: Something other people have. You have character lines

Dust: Mud with the juice squeezed out



---

The *Tea Leaf* is delivered weekly as a link to a PDF file.

To receive the *Tea Leaf* free via email, email your name, email address and “subscribe Tea Leaf” to [subscriptions@thredgold.com](mailto:subscriptions@thredgold.com)

or fill out the form at [www.thredgold.com](http://www.thredgold.com)

---

Thredgold Economic Associates  
136 South Main Street, Suite 417  
Salt Lake City, UT 84101  
[www.thredgold.com](http://www.thredgold.com)

Graphics and layout by Kendall Oliphant  
Research assistance from Shawn Thredgold