

Title:

Oil stocks and United States energy independence

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Summary:

A short history of why we are in the current oil crises and why Exxon and it's earnings are the target but not the problem.

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Article Body:

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This morning Exxon, the largest energy company in the world reported record profits of \$10.36 billion for the second three months of the year. This was up from \$7.64 billion from the same period a year ago. You will notice that the earnings were just shy of the record \$10.71 billion they reported in the fourth quarter of last year, 2005. All companies have cushions; the accountants call them reserves. There is always flexibility in the reporting of a company's earnings. Exxon very easily could have used their flexibility to come in with earnings that were below last year's fourth quarter record in order to avoid the embarrassment of posting another new record quarter. The company knows that the Congress is looking over Exxon's shoulder because the American people are looking over the government's shoulder. This is especially true with Congressional elections, and both houses of Congress up for grabs.

Every President of the United States has paid lip service to American energy independence. It's like listening to the President's State of the Union Address. The last seven Presidents within 1 minute of speaking at the State of the Union have always said, "I am please to report tonight that the State of the Union is strong," with emphasis on the word strong. Each President has proclaimed the need for energy independence, and then has always backed down from doing anything about it.

The answer by the Democrats is to create a tax to confiscate or simply take away what they deem to be excess profits that Exxon, and its associates are making.

The Republicans pine away about the need to open up the Southeast coast of Florida to offshore exploration, as though that's going to bring in millions of barrels per day. The answer is that both parties are wrong. Exxon is simply tacking onto OPEC dictated price the Arab states wish to charge us. It's more complex than that, but not by much.

Decades ago, the oil world was run by the seven largest oil companies on the planet, most of them American owned. For those of you old enough to remember back in 1973, the Arabs use an embargo against the United States, and all countries supporting Israel. The big oil companies in the United States controlled, and received 60% to as high as 65% of all the revenues generated by the Arab states.

The first cartel was formed back in 1960. From 1960 until 1973, OPEC which is the Organization of Petroleum Exporting Countries had very little power (we mean leverage) over the oil companies. In 1973, that certainly changed. By then the United States was bringing in daily about 35% of energy needs from overseas. Inflation was rampant; commodities in general were rising out of sight, and then all hell broke loose.

The Egyptians and the Syrians attacked Israel on two fronts. The date was October 6, 1973. With the secret support of then President Nixon every weapon short of nuclear was ordered to be flown to Israel to save the Jewish state. Israel was successful in repelling the invasion, but OPEC two weeks later put an embargo against oil shipments to the United States. The Arabs then raised prices for our European allies by 70 plus percent from \$3 to more than \$5 per barrel. We are now at \$70 plus per barrel by comparison with no adjustment for inflation.

In the 1970's, our economy was much more intertwined with oil, and energy than it is today. We have learned to become more efficient with our machines and processes. Back then, we were propelled into a recession by the dramatic increase in oil prices. Europe went deeper into recession than we did. The lessons haven't been forgotten, but they haven't been learned either.

There has been no attempt by the United States for over 30 years to even begin a program of true energy independence. The answer is not to penalize efficiently run Exxon for knowing how to be extremely profitable. Remember the first principle of politics, people vote with their feet.

The Seven Sisters (giant oil companies) who controlled oil prices and policies for generations ceded that power in 1973 to the Arab states. Oil unfortunately is in all the bad neighborhoods of the world, and that's not going to change. We

are at the mercy of Arab pricing for a commodity that is the oxygen of our economy. If Arab oil stops shipping tomorrow, every car and truck, train, and plane would grind to a halt shortly thereafter. The United States would have to go to war to maintain our economy and the bad guys know this. They will only push us so far, and no further.

The Arabs want our economy and our Western Europe friends to continue to grow. They want China, and the Pacific Rim to continue to grow. Only through growth can the world afford to pay for Arab oil. They do not want to gouge us, or anger us. It's not in their interest. They do want to extract the maximum amount we are willing, and able to pay for a barrel of their liquid gold.

One of the consequences of this action is the position that GM finds itself in, and perhaps Ford is in a worse position. GM and Ford are selling cars with obsolete technology, fuel inefficiencies, in a world of Japanese competitors chomping at the bit waiting to assume the title of the largest car company in the world.

Our legacy airline companies are now in the position of having a profit statement that is inversely connected to the price of fuel. Eighteen months ago you could fly a 747 from California to Europe for \$30,000 in fuel costs. Today the fuel cost is more than \$100,000, and getting more expensive.

If the United States wants to achieve energy independence, we must do what France has done. Our electrical generation like France should become nuclear based over the next 15 years. For those who shudder, and cry when they hear the word nuclear, let them know that for more than 50 years the US Navy has had hundreds of vessels run by nuclear power and there has never been a nuclear incident with one of them.

Our cars have to be modeled along European lines. The Europeans have been paying more than \$5 per gallons for years and they have learned to deal with it. If GM and Ford can't handle the problem, the Japanese car companies will handle it for them. After all, the Japanese have been eating Detroit's lunch for years. Why should it change?

Goodbye and good luck