

Texas Tea, China Likes it Too

By Laif Meidell – American Retirement Planners

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When I think of oil the first image that comes to mind is Jed Clampett, from the T.V. show the Beverly Hillbillies, out on a hunt with his dog when he stumbles upon a spring of oil coming out of the ground. Eureka! The second image I have is how much it costs me to fill up my tank these days with gas. Ouch! The cost is now so high that the typical pump shuts off at \$60 dollars before my tank is ever filled, and I refuse to ad insult to injury and run my card through one more time to fill it up the rest of the way.

So where does our money go when we buy a gallon of Gas? According to a survey produce by the U.S department of Energy, The U.S. Department of Labor, and American Petroleum Institute in March of 2004 the average gallon of gas in the U.S. cost \$1.79. Of that .43 cents went to pay state and Federal taxes, .79 cents paid for the actual crude oil, and the remaining .56 cents paid for refining and marketing costs. According to the American Petroleum Institute, the state of Nevada and its counties charge up to .44 cents per gallon of gasoline and up to .48 cents per gallon of diesel.

As I write this article, the price of crude oil just moved above \$40 per barrel. This isn't the fist time this has happened and I am pretty sure it wont be the last. The barrel of oil began rising back in 2002 as the potential for war with Iraq began to rise. As the war got closer, the price of the barrel of oil traded above \$35 and the media told us that as soon as the conflict with Iraq was over prices would decline back to the \$20 per barrel range. For roughly ten weeks from the day the invasion into Iraq started, the price of oil declined into the mid twenty's. But then something changed and the price of oil began an assent that would reach its first peak above \$40 a barrel in May of this year.

Recently, most of the commentary I read attempts to explain how the increase in oil prices won't have a significant impact on the global or U.S. economy. According to a paper put out by International Energy Agency in May 2004 titled "Analysis of the Impact of High Oil Prices on the Global Economy", the \$10 increase in oil prices will only decrease the World GDP by .5% and decrease the U.S. GDP by .3% in the coming year. Ok, so if the economy slows down in the coming year we can't blame it all on higher oil prices. Got it.

What we are not talking about, and what I think is more significant, is that we may not see the price of oil drop below \$30 per barrel again. Why? Lets keep this simple, supply and demand. Here in the U.S. demand for gasoline is growing, partly due to the stronger economy, but also because our population grows by roughly 1.1% per year or 3,201,000 people (May 2003 Census Bureau Data). Currently refineries are running at 96% capacity utilization to meet the consumer's fuel needs, and imports of crude oil and petroleum products has risen to 62% of consumption (American Petroleum Institute, June 25, 2004)

It wasn't too many years ago that China was an oil exporter. Now, there robust economic growth has made them the number two importer of oil in the world for 2003, right behind the U.S. Add to the equation that for the first five months of 2004, 14,195 vehicles were added to China's roads each day. At this rate it is expected that in twenty years China will surpass the U.S. as the worlds

largest car market (Financial Review, July 14, 2004). So we have increased demand here in the U.S. and in China, and I am sure in other countries as well. What about supply? Consider that we haven't built a new oil refinery since here in the U.S since 1976, due to increased regulation and a "not in my backyard" attitude. Additionally, according to George Blake there have been fewer Super Giant oil fields (more than a billion barrels of oil) discovered in the world every decade since the 50's. Remember that an oil well is not like a well of water, it takes energy to get the oil out of the ground. The best production day a well of oil will ever have is its first, from there the flow of oil decreases.

It appears that the demand for oil is growing world wide, as well as for the two largest importers the U.S. and China. Somewhere in our future, we as individual voters will likely have to take responsibility for this supply and demand equation and make decisions we have avoided up to this point. So, when you go to the pump today and see the price, remember, there are a growing number of consumers who want to buy that same life-blood of economic prosperity -- Oil.