PERSONALLY SPEAKING

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THE 13 MILLION BARREL GORILLA IN THE GARAGE

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Earlier this summer oilman T. Boone Pickens launched a national media blitz to call attention to the $700 billion Americans spend each year to import crude oil. Pickens strongly recommends that the United States consider seriously the development of wind power to replace natural gas in generating electricity thereby freeing up that natural gas for use in fleets of vehicles with engines running on that fuel which in turn would reduce our dependence on foreign oil. Pickens' recommendations are bold but long term and very costly.

In the following we look at U.S. imports of petroleum products on a daily basis in terms of barrels not dollars and by country of origin. Additionally, we examine the extent of the dollars held by those countries and the amount of the U.S. public debt held by those countries. Finally, we offer some short-term and longer-term remedies which have not as yet entered the public discourse.

The U.S. Energy Information Administration reports that the United States imports more petroleum products from Canada than from any other country. The country of origin for petroleum products may not be country of origin for the crude oil from which refined products are made.

IMPORTED PETROLEUM PRODUCTS: 2007

Country of Origin	Barrels per Day
Canada	2,426,000
Mexico	1,533,000
Saudi Arabia	1,489,000
Venezuela	1,362,000
Nigeria	1,132,000
Iraq	485,000
Russia	413,000
UK	278,000
Brazil	202,000
Other countries	
OPEC	1,515,000
Non OPEC	2,604,000
TOTAL	13,439,000

The United States buys almost as much from NAFTA partners Canada and Mexico (3,959,000 bbls per day) than it does from the Saudi Arabia, Venezuela, and Nigeria combined (3,983,000 bbls per day). The difference clearly is that Canada and Mexico are much more stable, secure, and friendly than Saudi Arabia, Venezuela, or Nigeria. Imports have more than doubled in the last 25 years.

Selling petroleum products generates huge flows of dollars to the countries of origin. At $100 bbl, U.S. purchases from Saudi Arabia, Venezuela, and Nigeria yield $398.3 million every day. Those dollars can be used to buy U.S. produced goods and services, U.S. assets such as manufacturing establishment, banks and farms, and make credit available to U.S. borrowers. Fifteen oil producing countries which include Nigeria, Venezuela, and Saudi Arabia, but not Mexico or Canada, currently hold $164.3 billion in U.S. Treasury securities which by virtue of the interest paid on those Treasury holdings adds further to the overall cost of importing foreign petroleum products.

Further, in some cases, those Treasury securities are held in "sovereign wealth funds" which are controlled directly by the governments which operate the oil production facilities. Those funds create a special risk for U.S. holders of Treasury securities because if they dump their holdings on the bond market sovereign wealth funds can drive down the value of those securities for those who still hold those securities as investments.

The Federal Reserve states that last year there was $792.2 billion in U.S. currency in circulation of which an estimated one-half to two-thirds is held abroad. Some of these dollars are held for exchange purposes and some as investments. The value of these dollars fluctuates from day to day in part because of the political and economic uncertainties associated with the currencies issued by other governments. Some of those U.S. dollars are held in petroleum producing countries and in sovereign wealth funds which introduces a similar risk as seen with Treasury securities. If the holders of those dollars dump them on the currency market, they can drive down the value of the dollar, and a weaker dollar makes imported petroleum products more expensive.

Dealing with this 13.4 million bbl gorilla is like trying to overcome obesity. There is no simple remedy. Something tasteful has to be rejected, something distasteful has to be accepted. Commuters driving alone to work may have to give up their roomy, gas guzzling vehicles or take up car pooling. Drilling in restricted areas may have to be accepted even at the risk of negative environmental impacts. If the ideas advanced by Pickens are implemented new electric transmission lines will have to be built to carry the electricity generated in the wind corridor running north from Texas to the east and west coasts where the electricity is needed.

None of the following are futuristic suggestions in the sense that they require the development of new technologies. We offer them in the hope of expanding the options available to address the gorilla that is threatening the U.S. economy and the American way of life.

In the short term.

► Reduce state and local sales taxes on new more fuel-efficient vehicles. Reducing the Monroe City sales taxes by 50 percent would cut the taxes paid on a $30,000 fuel-efficient hybrid vehicle by $1,470.

► **Double the license tag fees for less fuel-efficient vehicles.**
► **Triple the fine for exceeding the 70 mph speed limit on interstate highways.**

In the longer term,
► **Replace the natural gas used by power plants with the methane from landfills. SC Johnson, maker of such popular household products as Windex and Pledge, several years ago designed and built a new manufacturing facility that operates on landfill methane. Make the saved natural gas available at a lower price to those persons and organizations with vehicles using natural gas. New technologies are making it possible to extract natural gas from shale in northwest Louisiana thereby increasing the supply of natural gas and helping check any increase in prices for natural gas.**
► **Build new buses and trucks and convert older buses and trucks so that they operate on propane from natural gas processing, methane, or natural gas instead of gasoline or diesel. Focusing on fleet vehicles that are fueled at a small number of central locations eliminates the need to modify the huge number of filling stations and convenience stores where cars are fueled.**

State and local governments will not like the short-term suggestion regarding the sales tax because it will reduce tax revenues and offend voters who operate less fuel-efficient vehicles or who are chronic speeders. New car dealers in jurisdictions bold enough to cut the sales tax on more fuel-efficient vehicles will applaud the change.

Companies supplying fuel to power plants will object to the longer-term loss of that market, and fleet operators will resist the cost of converting their vehicles. Landfill operators, on the other hand, will profit from a new revenue stream along with an improved public image. So too will power company customers who currently are heavily burdened with much higher fuel adjustment charges.

NO is not the answer to getting the 13.4 million bbl. gorilla out of the American garage. CAN DO is.

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