

BACKGROUND / *Morris W. Dorosh, Publisher*

How can the planet's energy future not look bleak when crude oil sells at \$3 a gallon? When \$3-a-gallon crude is converted to \$5 gasoline and \$4 diesel fuel and still consumption keeps rising? When crude oil production does not increase, as it always has before, in response to sky-high prices? When not one new oil refinery has been built in the U.S. since 1972 because of prohibitive environmental restrictions? When future development of the northern Canadian oil sands, the biggest known petroleum reserve in the world, is made uncertain by threatened regulations, unpredictable royalties, endless native land claims and fanatic ecomaniac opposition? When all countries with significant exportable petroleum resources are controlled by ruthless, despotic, secretive dictatorships which are themselves threatened by religious fanatics who despise western civilization?

The world would rather continue to pump oil and natural gas than look for alternatives. Petroleum was itself once the new, novel, alternative fuel. It took about 80 years for oil exploration, production, processing and distribution to become commercially feasible, sufficiently to bring oil product costs down to the capacity of the mainstream consumer to buy them. A gallon of oil still costs less than a gallon of milk. Oil and oil product prices have tripled in three years, but demand has not skipped a beat. The market has shown that it can modulate neither the supply nor demand side of the petroleum equation. Unless such a capacity is soon and decisively demonstrated we are in for a bigger convulsion than even the pessimists among us can yet imagine.

Price is one thing, supply another in this strange environment. Practically no one seems to appreciate how vulnerable the western world is to a supply disruption, or how instantly any such disruption would be telegraphed everywhere, even to energy-independent Canada. One of the few who do is president Bush: he has ordered his administration to keep filling the strategic oil reserve maintained by the U.S. government even as prices set one record after another. The reserve is at 97% of its capacity of 727 million barrels. It could replace offshore imports for 58 days, but military needs would take such priority that non-essential users would get practically none. No one knows what would happen if an Islamist-terrorist-created oil embargo lasted for 60 or 75 days.

Renewable biofuels are of special interest to this newsletter and most of its subscribers because this sector creates a new and theoretically unlimited market for farm crops, which have been in surplus most of the time for two centuries. Nothing could be more logical than diverting chronic agricultural overproduction towards the alarming energy crisis. However nothing can be proposed or done today without attracting opposition and obstruction, either from special interests which feel threatened or from misinformed and wrongly motivated planet-defenders.

It is very hard to see how any kind of alternative energy development could possibly be opposed by people who appreciate and understand the whole energy situation. The most benign alternative source of electricity is wind, yet intense and organized opposition is developing to wind farms. Construction should be started somewhere in North America on a large nuclear energy plant every two months if there is to be any practical hope of developing an electric-vehicle sector in the next 25 years. Half the electricity in enviro-fanatic France comes from

atomic power plants. A few nuclear projects have been proposed in the U.S. and Canada but permitting will take years while construction costs escalate. It takes about four years to build an electricity-generating nuclear reactor. An atomic bomb can be made in 30 days. Even hydro-electric power stations can't be developed without complicated entanglements with wildlife-preservation and native-rights pressure groups. If a station can be built, opposition is certain over the transmission line to move the power to users. Solar panel farms are resisted because they might disorient birds.

No one in the know contends that any alternative energy source can replace all oil. It will take all of them, aggressively pursued on an emergency basis. If biofuels can only replace 10% of petroleum needs the rational reaction is to be grateful that biofuel technology has come this far. A more common reaction is that if biofuels can only replace 10% it's not worth the bother.

But to come back to the sheer precariousness of conventional energy supply. The economic and social consequences of even brief interruptions are many times more important than any issue posed by biofuels. An incident on the scale of the World Trade Center attack could paralyze half the world's oil shipping for weeks. Coordinated terrorist assaults on as few as four or five oil pipelines and tanker terminals would do it. The western world has already gone as far as it can go in appeasing the owners of the oil with money and protection. A day will come when that is not enough. The sheiks and kings will be deposed and anarchy will come. This isn't paranoia. It is the twenty-first century, full bore.