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FROM THE WILDERNESS

A Nonpartisan Non-sectarian MAP from the Here That Is, Into the Tomorrow of Our Own Making

Vol. VI, No. 9 **Jan 30, 2004**

IN YOUR FACE

- **The Connections between Dick Cheney's Energy Task Force, 9/11, and Peak Oil "On the Table"**
- **July 04 Supreme Court Ruling on Secrecy, Task Force Documents Obtained through FOIA Suit on Collision Course as Cheney "Duck Hunts" with Scalia**
- **The Reason Why Activists of All Stripes are Ineffective**

by
Michael C. Ruppert

"The Cheney report is very guarded about the amount of foreign oil that will be required. The only clue provided by the [public] *report is a chart of net US oil consumption and production over time. According to this illustration, domestic oil field production will decline from about 8.5 million barrels per day (mbd) in 2002 to 7.0 mbd in 2020, while consumption will jump from 19.5 mbd to 25.5 mbd. That suggests imports or other sources of petroleum… will have to rise from 11 mbd to 18.5 mbd. Most of the recommendations of the NEP [National Energy Policy, May 2001] are aimed at procuring this 7.5 mbd increment, equivalent to the total oil consumed by China and India.*

-- Professor Michael Klare
"Bush-Cheney Energy Strategy: Procuring the Rest of the World's Oil"
***Foreign Policy in Focus*, January 2004**

The White House stonewall goes on, as the Bush administration continues to deny the non-partisan General Accounting Office's request for information on who the White House Energy Task Force met with while formulating national energy policy. For the first time in history, the GAO has sued the executive branch for access to the records. It has been 42 days since the GAO filed their suit against the Bush administration and 333 days since the White House first received the GAO request. Why is the White House going to such lengths? What are they trying to hide?

-- Truthout, www.truthout.org
"White House Stonewall"
April 5, 2002

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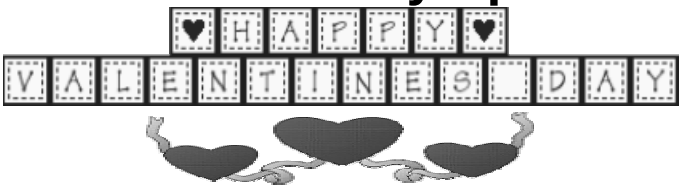

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From the Wilderness

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(IN YOUR FACE - continued from page 1)

"The Supreme Court said Monday it will settle a fight over whether Vice President Dick Cheney must disclose details about secret contacts with energy industry officials as the Bush administration drafted its energy policy…

"The Supreme Court will hear the case sometime in the spring, with a ruling expected by July."

-- The Associated Press, Dec. 15, 2003

"Bush and Blair have been making plans for the day when oil production peaks, by seeking to secure the reserves of other nations."

-- George Monbiot
"Bottom of the Barrel"
***The Guardian*, December 2, 2003**

"China and India are building superhighways and automobile factories. Energy demand is expected to rise by about 50 per cent over the next 20 years, with about 40 per cent of that demand to be supplied by petroleum…

"Oil supplies are finite and will soon be controlled by a handful of nations; the invasion of Iraq and control of its supplies will do little to change that. One can only hope that an informed electorate and its principled representatives will realize that the facts do matter, and that nature – not military might – will soon dictate the ultimate availability of petroleum.

-- Alfred Cavallo
Oil: The illusion of Plenty
Bulletin of the Atomic Scientists, Jan-Feb 2004

The 9/11 attacks gave the US an ideal pretext to use force to secure its global domination…

The plan ["Rebuilding America's Defenses", Project for a New American Century – 2000] *shows Bush's cabinet intended to take military control of the Gulf region whether or not Saddam Hussein was in power…*

The overriding motivation for this political smokescreen is that the US and the UK are beginning to run out of secure hydrocarbon energy supplies… As demand is increasing, so supply is decreasing, continually since the 1960s.

-- Michael Meacher MP, UK Environment Minister 1997-2003
"The War on Terrorism is Bogus"
***The Guardian*, September 6, 2003**

"Moreover, as America becomes an increasingly multi-cultural society, it may find it more difficult to fashion a consensus on foreign policy issues, except in the circumstance of a truly massive and widely perceived direct external threat."

-- Zbigniew Brzezinski
***The Grand Chessboard*, p211 (1997)**
(Brought to world attention after 9/11 by *FTW* on Nov. 7, 2001)
In Your Face

* * *

January 29, 2004 0100 PDT (*FTW*) -- Nothing can change the facts. When, in May 2001, the conservative legal watchdog group, Judicial Watch, filed suit to see the records of Dick Cheney's National Energy Policy Development Group (NEPDG), it was the first to protest the unheard of secrecy of the energy task force. As the White House stonewalled, the Government Accounting Office (GAO) filed suit the following February. Congress had, after all, funded the project. Non-governmental officials had played major roles in its deliberations and, under the Constitution; the GAO had an obligation to see how the money was spent and what was

produced. White House refusals prompted media speculation about deals with Enron and big oil companies; a divvying of spoils; and a rape of the environment. Judicial Watch was later joined in its suit by the Sierra Club. A scandal for everyone!

It's a sure bet that of all the plaintiffs, from Congressman Henry Waxman (D–CA) and Comptroller General David Walker who fought for the GAO; to Judicial Watch's Larry Klayman, who had previously fought Bill Clinton; to the environmentalists, none had a clue as to what they were really asking for or why Dick Cheney fought them so ruthlessly.

The fight was just beginning.

As reported in the congressional newspaper *The Hill* on February 19, 2003, the GAO dropped its suit after the administration made threats of heavy cuts to its budget. The offer GAO couldn't refuse was delivered by Ted Stevens, Republican Senator from Alaska, where a lot of new drilling was expected to take place. Judicial Watch and the Sierra Club stood firm. Both had the money to see their suits through.

The controversy boiled throughout 2001-2002. It was a crisis which – absent the war on terror – might have been one of the biggest constitutional crises of all time. It might still be.

Enron seems like a pleasant diversion now. All these battles started *before* the first plane hit the Twin Towers. That's one reason why everyone was so shocked at the blatantly illegal secrecy and the manner in which the administration fought. This was long before The Patriot Act, Homeland Security, Patriot Act II, and all the scandalous lies that have since been revealed. One of the administration's bets was that, in the wake of 9/11, the NEPDG records would be forgotten.

They lost that one.

Hints as to what was discussed in the secret task force – empanelled immediately after Bush took office in January 2001 – are now on the table. They strongly suggest that inside the NEPDG records lay the deepest, darkest secrets of 9-11. The motive and the apocalyptic truth that would compel such carnage and hairpin the course of human history; the thing that no one ever wanted to know; the thing that makes it utterly believable that the US government could have deliberately facilitated the attacks of September 11th, stands on the brink of full disclosure.

The likelihood that those truths might soon be revealed is serious enough that two weeks ago Dick Cheney found it convenient to go duck hunting with Justice Antonin Scalia who will hear arguments in the case this spring.

Nature laughs as pundits spin and concerned peoples around the world frantically expend futile, disorganized energies against the juggernaut of tyranny and madness. Elect a Democrat (any Democrat); impeach Bush; write a check to support an activist group; place an ad; stage a protest march; vote; don't vote; file a suit; file another suit; demand that the major media tell the truth, as long as it's the truth you want to hear; blame political ideology; blame a religion; blame a race; blame Capitalism; blame Communism; fight each other to release your frustrations and fears. Do anything but accept the obvious reality that for the US government to have facilitated and orchestrated the attacks of 9/11, something really, really bad must be going on.

There are so many inconsistencies, proven lies, conflicts of interest, and contradictions in the Bush administration's accounts of 9/11 that the sheer multitude of them – in a rational world – would have brought the government to a halt long ago. But this is not a rational world.

A SEVEN-PAGE GLIMPSEUNDER THE DOOR

Last July, after appealing a Freedom of Information Act (FOIA) request for NEPDG documents, Judicial Watch won a small victory with the release of seven pages of NEPDG documents.

They included:

- A detailed map of all Iraqi oil fields (11% of world supply);
- A two-page specific list of all nations with development contracts for Iraqi oil and gas projects and the companies involved;
- A detailed map of all Saudi Arabian oil fields (25% of world supply);
- A list of all major oil and gas development projects in Saudi Arabia;
- A detailed map of all the oil fields in the United Arab Emirates (8% of world supply);
- A list of all oil and gas development projects in the UAE;

The documents may be viewed online at: http://www.judicialwatch.org/071703.c_.shtml.

In their austerity, the documents scream of what NEPDG was debating. If 7.5 mbd of new oil production was to be secured from any place there was only one place to get it – the Persian Gulf. All told, including Qatar (firmly under US control and the home of headquarters for US Central Com-

mand) and Iran, the Gulf is home to 60% of all the recoverable oil on the planet. Not only would these oil fields have to be controlled, billions of dollars in new investment would be required to boost production to meet US needs, simultaneously denying that same production to the rest of the world where demand is also soaring.

Klare wrote:

> *According to the Department of Energy, Saudi Arabia's net petroleum output must grow by 133% over the next 25 years, from 10.2 mbd in 2001 to 23.8 mbd in 2025, in order to meet anticipated world requirements at the end of that period. Expanding Saudi capacity by 13.6 mbd, which is the equivalent of total current production by the United States and Mexico, will cost hundreds of billions of dollars… The Cheney report calls for exactly that. However, any effort by Washington to apply pressure on Riyadh is likely to meet significant resistance from the royal family…*

Not to mention from Muslim fundamentalists and ordinary Saudi citizens who oppose the corrupt and teetering regime.

Sixty per cent of all the recoverable oil on the planet is in an area no larger than the state of Indiana

Herein lies the motive behind the US's eagerness to quietly and wrongly implicate the Saudi government in 9/11. A closer look at the maps obtained by Judicial Watch explains why. When placed side by side the maps reveal that 60% of the world's recoverable oil is in a "golden" triangle running from Mosul in northern Iraq, to the Straits of Hormuz, to an oil field in Saudi Arabia 75 miles in from the coast, just west of Qatar, then back up to Mosul. Sixty per cent of all the recoverable oil on the planet is an in area no larger than the state of Indiana.

Is it surprising then that the overwhelming majority of US military deployment since 9/11 is in this region? How easy would it be for the US military, already surrounding it, to occupy this area in the event that the Saudi monarchy became unstable?

The list of countries and companies already invested in new development projects in the region reads like the perfect answer to the question: "OK, who do we have to deal with to get this done? Who will come with us if we offer them a piece and who will refuse, no matter what, because they can't afford to have their share reduced?" Look at the documents and answer that question and you have perfectly separated the investor nations into two camps; those who supported the Iraqi invasion and those who opposed it.

The simple fact, as described in the opening quote from Michael Klare, is that to secure imports equivalent to the amounts consumed by China and India means taking that oil away from China and India, or some other mix of countries. The question is, from whom?

Other global battles for the oil that remains have already begun, albeit quietly for the time being. This year China will pass Japan as the world's second largest oil importer. A January 3 article by James Brooke in the *New York Times* titled *Japan and China Battle for Russia's Oil and Gas*, described the fierce high-stakes contest underway. Russia is going to build only one pipeline east from its Siberian fields. It is either going to terminate in the middle of China, or on Russia's Pacific coast where it can supply Japan, Korea and the Philippines. Brooke wrote, "With the choice Russia faces, the political and economic dynamics of Northeast Asia stand to be profoundly shaped for years to come."

No kidding.

Russia has 60 billion barrels (Gb) of proven reserves, a 690-day supply for planet earth and there are no more significant quantities of oil to be discovered anywhere inside or outside of Russia. World oil discovery peaked in the 1960s and has been declining ever since. The human race now uses four barrels of oil for every barrel found and the gap is widening each year. What remains to be discovered is going to be of a lesser quality, much more expensive to obtain, and more expensive to refine.

WEST AFRICA, LATIN AMERICA, SOUTHEAST ASIA

The public NEPDG report also addresses (in oblique fashion) areas of the world which have increasingly become inflamed since 9/11: West Africa, South America, and Southeast Asia. For more than two years *FTW* has paid close attention to a shift in US and NATO military presence West Africa, Venezuela, Colombia, the Philippines and Indonesia. (Please see: http://www.fromthewilderness.com/free/ww3/index.html#oil)

Of particular interest are the facts that on May 1, 2003, when through the CIA's Voice of America, NATO commander James Jones announced that NATO was shifting its focus to West Africa, where new US naval bases are being negotiated in the tiny West African island nations of Sao Tome and Principe (Klare); and that the US gave six naval warships to Nigeria last summer (Reuters, CNN). Isn't it convenient that a US-friendly coup toppled the Sao Tome government last July? (source: CNN)

As detailed by Klare, the importance of these regions is that while they contain far smaller reserves than the Gulf, they can be brought online (and drained) quickly to meet current demand without destabilizing the US (world) economy. The tens and perhaps hundreds of billions of dollars needed to invest in infrastructure to increase production in the Gulf will come only when oil prices have soared enough to provide that capital. Don't expect Wall Street to drain their reserves. They aren't going to pay for it. You are.

Make no mistake, Wall Street and the oil companies and are banking on severe oil price spikes to fund this short-lived development and, almost as importantly, to reduce consumption on an ad hoc basis as people find they can't afford five or six dollar gasoline and businesses shut down. The world uses a billion barrels of oil every eleven and one half days and the rate of consumption is growing. There is, at best, 500-600 billion barrels in the Gulf, which can only be pumped if the investment is made over the next ten years and begun immediately.

Do the math.

The vaunted "proven reserve" numbers touted by economists have been shown to be as questionable as Enron's bookkeeping. *FTW* documented in April of 2002 that the US Geological Survey admits that it estimates reserves as a *function of demand*. On January 9th 2004, Royal Dutch Shell announced that it had overstated its proven reserves by 20%. The markets reacted accordingly.

When will the price spikes come? Within six months to a year of the 2004 election. Not before then – if George W. Bush can prevent it .

`*FTW* has spent twenty-seven months exploring and educating people about all the nuances involved in a world that is running out of hydrocarbon energy. We have looked at its effects on transportation, electricity, economic growth and contraction, political power, civilization and – perhaps most importantly – food production. The coming showdown over the NEPDG records is probably the single most important battle that can be fought to learn the truth of 9/11 and the one overriding mandate that is now driving human history.

I am not optimistic about the outcome.

WHY ACTIVISTS FAIL

There are two reasons why activist efforts to halt the inertia of the Empire have failed and will continue to fail: human nature, and human nature.

Activists all over the political spectrum are flailing about in the post-9/11 world, spinning wheels, and throwing out idea after idea without a unifying principle or a clearly stated goal. As has happened so many times before with the victims of a dozen other instances of government criminality, the new victims – like the New Jersey widows of 9/11 who are known for their persistence in challenging government lies – make mistakes that have been made before, put their faith in strategies that have been tried before, and discount the wisdom and experience of those who have suffered before. Human nature says that it is wrong to criticize victims. Yet the new ones make a habit of ignoring the old ones, only to be replaced and forgotten when the next, inevitably greater, crime takes place.

Each time a new tragedy strikes, whether it be 9/11, TWA 800 (a navy shoot down), CIA involvement in drug trafficking, Iran-Contra, Waco, The Savings and Loan Scandal, the Enron shareholders, the Gander crash, or any of a dozen other events in recent history, a new crop of people is instantly and brutally transformed from people who once trusted the system into people who have been betrayed by it. Psychologically and emotionally raped, they rage. They vow to fight. The need to make the system that failed them work as they were "taught" becomes a new imperative for their sanity and emotional stability. They must believe that they can make people listen to them, that they can "fix" it.

When, therefore, others who have been brutalized before them present themselves with a valuable experience and try to explain the lay of the land, the new victims are faced with the awful responsibility of acknowledging that they themselves had not listened or responded when their predecessors cried out for help. They had been just as quick to say "I'm too busy" or "That's a bunch of b.s. It couldn't be that way." Yet it is. The new victims had once been as deaf as the rest of the world now appears to them. Still they clutch at straws and

cling to the illusion that “this time it will be different”. For their own sanity they must ignore the reality of the people who came before them, when listening and learning might provide a unifying, though terrifying, focus that might ensure success. All it takes is courage and a good map.

THREE DAYS OF THE CONDOR

But there is a deeper part of human nature which covers the planet in a sickly, light-sweet-crude blanket of denial. It is best exemplified from the closing lines of Sidney Pollack’s 1975 *Three Days of the Condor*, perhaps the best spy movie ever made. As *FTW* has shown in recent stories – using declassified CIA documents – the CIA was well aware of Peak Oil in the mid 1970s. *Three Days of the Condor* took that awful truth and said then what few in the post-9/11 world has had the courage to say. I can guarantee you that it is the overriding rationale in Dick Cheney’s mind, in the mind of every senior member of the Bush administration, and in the mind of whomever it is that will be chosen as the 2004 Democratic Party nominee. Getting rid of Bush will not address the underlying causative factors of energy and money and any solution that does not address those issues will prove futile.

Turner (Robert Redford): "Do we have plans to invade the Middle East?"

Higgins (Cliff Robertson): "Are you crazy?"

Turner: "Am I?"

Higgins: "Look, Turner…"

Turner: "Do we have plans?"

Higgins: "No. Absolutely not. We have games. That's all. We play games. What if? How many men? What would it take? Is there a cheaper way to destabilize a régime? That's what we're paid to do."

Turner: "Go on. So Atwood just took the game too seriously. He was really going to do it, wasn't he?"

Higgins: "It was a renegade operation. Atwood knew 54-12 would never authorize it. There was no way, not with the heat on the Company."

Turner: "What if there hadn't been any heat? Supposing I hadn't stumbled on a plan? Say nobody had?"

Higgins: "Different ball game. The fact is there was nothing wrong with the plan. Oh, the plan was alright. The plan would have worked."

Turner: "Boy, what is it with you people? You think not getting caught in a lie is the same thing as telling the truth?"

Higgins: "No. It's simple economics. Today it's oil, right? In 10 or 15 years - food, Plutonium. And maybe even sooner. Now what do you think the people are gonna want us to do then?

Turner: "Ask them."

Higgins: "Not now - then. Ask them when they're running out. Ask them when there's no heat in their homes and they're cold. Ask them when their engines stop. Ask them when people who've never known hunger start going hungry. Do you want to know something? They won't want us to ask them. They'll just want us to get it for them."

What do you want?

Bush-Cheney Energy Strategy: Procuring the Rest of the World's Oil

by

Michael Klare

The following article appeared in the January, 2004 issue of Foreign Policy In Focus magazine (www.fpif.org) - Reprinted with permission from the author.

The brilliant Michael Klare, author of Resource Wars: The new Landscape of Global Conflict and the forthcoming Petropolitics, simply and unequivocally confirms FTW's analysis of the motives behind 9-11 in this brilliant new article. His compelling analysis is made more urgent by the fact that – as FTW reported in December 2002, the hoped-for huge Caspian Basin oil reserves are a myth . http://www.fromthewilderness.com/free/ww3/120502_caspian.html -- MCR

When first assuming office in early 2001, President George W. Bush's top foreign policy priority was not to prevent terrorism or to curb the spread of weapons of mass destruction—or any of the other goals he espoused later that year following the September 11, 2001 attacks on the World Trade Center and the Pentagon. Rather, it was to increase the flow of petroleum from suppliers abroad to U.S. markets. In the months before he became president, the United States had experienced severe oil and natural gas shortages in many parts of the country, along with periodic electrical power blackouts in California. In addition, oil imports rose to more than 50% of total consumption for the first time in history, provoking great anxiety about the security of the country's long-term energy supply. Bush asserted that addressing the nation's "energy crisis" was his most important task as president.

He and his advisers considered the oil supply essential to the health and profitability of leading U.S. industries. They reasoned that any energy shortages could have severe and pervasive economic repercussions on businesses in automobiles, airlines, construction, petrochemicals, trucking, and agriculture. They deemed petroleum especially critical to the economy because it is the source of two-fifths' of the total U.S. energy supply—more than any other source -— and because it provides most of the nation's transportation fuel. They also were cognizant of petroleum's crucial national security role as the power for the vast array of tanks, planes, helicopters, and ships that constitute the backbone of the [fueling the] U.S. war machine.

"America faces a major energy supply crisis over the next two decades," Secretary of Energy Spencer Abraham told a National Energy Summit on March 19, 2001. "The failure to meet this challenge will threaten our nation's economic prosperity, compromise our national security, and literally alter the way we lead our lives."

The energy turmoil of 2000-2001 prompted Bush to establish the National Energy Policy Development Group (NEPDG), a task force of senior government representatives charged with developing a long-range plan to meet U.S. energy requirements. To head this group, Bush picked his closest political adviser, Vice President Dick Cheney. A Republican Party stalwart and a former secretary of Defense, Cheney had served as chairman and chief executive officer of the Halliburton Co., an oilfield services firm, before joining the Bush campaign in 2000. As such, Cheney availed himself of top executives of energy firms, such as Enron Corp., for advice on major issues.

As the NEPDG began its review of U.S. energy policy, its members saw the United States was faced with a grave choice between two widely diverging paths. It could continue down the road it had long been traveling, consuming increasing amounts of petroleum and—given the irreversible decline in domestic oil production—becoming ever more dependent on imported supplies. Or, it could choose an alternate route of reliance on renewable sources of energy and gradually reducing petroleum use.

Clearly, the outcome of this decision would have profound consequences for society, the economy, and the nation's security. Following the same path would bind the United States ever more tightly to Persian Gulf suppliers and to other oil-producing countries, with a corresponding impact on U.S. security policy. Pursuing an alternative strategy would require a huge investment in new energy-generation and transportation technologies, resulting in the rise or fall of entire industries. Either way, the public would experience the impact of this choice in everyday life and in the dynamics of the economy as a whole. No one, in the United States or elsewhere, would be left entirely untouched.

The National Energy Policy Development Group wrestled with this dilemma and completed its report during the early months of 2001. After a careful review, Bush anointed the report as the National Energy Policy (NEP) and released it on May 17. At first glance, the NEP, or the Cheney report as it is often called, appeared to reject the path of increased reliance on imported oil in favor of renewable energy. The NEP "reduces demand by promoting innovation and technology to make us the world leader in efficiency and conservation," the president declared as he released it. However, for all its rhetoric about conservation, the NEP does not propose a reduction in oil consumption. Instead, it proposes to slow the growth in U.S. dependence on imported petroleum by boosting production at home through the exploitation of untapped reserves in protected wilderness areas.

The single most important step proposed in the NRP was increasing domestic oil production by drilling in the Arctic National Wildlife Refuge (ANWR), an immense, untouched wilderness area in northeastern Alaska. While this proposal has generated enormous controversy in the United States because of its deleterious impact on the environment, it also has allowed the White House to argue that the administration is committed to a policy of energy independence. How-

ever, careful examination of the Cheney report leads to an entirely different conclusion. Aside from the ANWR proposal, nothing in the NEP would contribute to a significant decline in U.S. dependence on imported petroleum. In fact, the very opposite is true: The basic goal of the Cheney plan is to find additional external sources of oil for the United States.

In the end, Bush made a clear decision regarding future U.S. energy behavior. Knowing that nothing can reverse the long-term decline in domestic oil production, and unwilling to curb the country's ever-growing thirst for petroleum products, he elected to continue down the existing path of ever-increasing dependence on foreign oil.

Conservation Initiative: Fact or Fiction?

The fact that the Bush energy plan envisions increased rather than diminished reliance on imported petroleum is not immediately apparent from the president's public comments on the NEP, or from the first seven chapters of the Cheney report itself. It is only in the eighth and final chapter, “Strengthening Global Alliances,” that the true intent of the administration's policy becomes fully apparent. Here, the tone of the report changes markedly from a professed concern with conservation and energy efficiency to an explicit emphasis on securing more oil from foreign sources. The chapter begins, “U.S. national energy security depends on sufficient energy supplies to support U.S. and global economic growth.” The report further states, “We can strengthen our own energy security and the shared prosperity of the global economy,” by working with other countries to increase the global production of energy. It is a mandate to “make energy security a priority of our trade and foreign policy.”

The Cheney report is very guarded about the amount of foreign oil that will be required. The only clue provided by the report is a chart of net U.S. oil consumption and production over time. According to this illustration, domestic oil field production will decline from about 8.5 million barrels per day (mbd) in 2002 to 7.0 mbd in 2020, while consumption will jump from 19.5 mbd to 25.5 mbd. That suggests imports or other sources of petroleum, such as natural gas liquids, will have to rise from 11 mbd to 18.5 mbd. Most of the recommendations in Chapter 8 of the NEP are aimed at procuring this 7.5 mbd increment, equivalent to the total oil consumed by China and India.

One-third of all the recommendations in the report are for ways to obtain access to petroleum sources abroad. Many of the 35 proposals are region- or country-specific, with emphasis on removing political, economic, legal, and logistical obstacles. For example, the NEP calls on the secretaries of Energy, Commerce, and State “to deepen their commercial dialogue with Kazakhstan, Azerbaijan, and other Caspian states to provide a strong, transparent, and stable business climate for energy and related infrastructure projects.”

The Cheney report will have a profound impact on future U.S. foreign and military policy. Officials will have to negotiate for these overseas supplies and arrange for investments that will increase production and exports. They must also take steps to ensure that wars, revolutions or civil disorder do not impede foreign deliveries to the United States. These imperatives will be especially significant for policy toward the Persian Gulf area, the Caspian Sea basin, Africa, and Latin America.

Applying the Cheney energy plan will have major implications for U.S. security and military policy. Countries expected to supply petroleum in the years ahead are torn by internal conflicts, harbor strong anti-American sentiments, or both. Efforts to procure additional oil from foreign sources are almost certain to lead to violent disorder and resistance in many key producing areas. While U.S. officials might prefer to avoid the use of force in such situations, they may conclude that the only way to guarantee the continued flow of energy is to guard the oil fields and pipelines with soldiers.

To add to Washington's dilemma, troop deployments in the oil-producing areas are likely to cause resentment from inhabitants who fear the revival of colonialism or who object to particular U.S. political positions, such as U.S. support for Israel. Efforts to safeguard the flow of oil could be counter-productive, intensifying rather than diminishing local disorder and violence.

Persian Gulf

The United States currently obtains only about 18% of its imported petroleum from the Persian Gulf area. But Washington perceives a strategic interest in the stability of energy production there because its major allies, including Japan and Western Europe, rely on imports from the region. Also, the gulf's high export volume has helped to keep world oil prices relatively low, benefiting the U.S. economy. With domestic production in decline, the NEP observes, the Persian Gulf “will remain vital to U.S. interests.”

The United States has played a significant role in Persian Gulf affairs for a very long time. During World War II, President Franklin D. Roosevelt forged an agreement with Abdul-Aziz ibn Saud, the founder of

the modern Saudi dynasty, to protect the royal family against its internal and external enemies in return for privileged access to Saudi oil. In subsequent years, the United States also agreed to provide security assistance to the Shah of Iran and to the leaders of Kuwait, Bahrain, and the United Arab Emirates (UAE). These agreements have led to the delivery of vast quantities of U.S. arms and, in some cases, the deployment of combat forces to these countries. (The U.S. security link with Iran was severed in January 1980, when the Shah was overthrown by militant Islamic forces.)

U.S. policy with regard to the protection of Persian Gulf energy supplies is unambiguous: When a threat arises, the United States will use whatever means are necessary to ensure the continued flow of oil. This principle, known as the Carter Doctrine, was first articulated by President Jimmy Carter in January 1980, following the Soviet invasion of Afghanistan and the fall of the Shah of Iran. It has remained part of U.S. policy ever since. In accordance with the principle, the United States used force in 1987 and 1988 to protect Kuwaiti oil tankers from Iranian missile and gunboat attacks, and then in 1990 and 1991 to drive Iraqi forces out of Kuwait.

In explaining the need to use force on these occasions, U.S. officials have stressed the importance of Persian Gulf oil to domestic economic stability and prosperity. “Our strategic interests in the Persian Gulf region, I think, are well known, but bear repeating,” then-Secretary of Defense Cheney told the Senate Armed Services Committee on Sept. 11, 1990, five weeks after the Iraqi invasion of Kuwait. In addition to other security ties to Saudi Arabia and its neighbors, he said, “We obviously also have a significant interest because of the energy that is at stake in the gulf.” Iraq possessed 10% of the world's oil reserves and acquired another 10% by seizing Kuwait, he explained. The occupation of Kuwait also placed Iraqi forces within a few hundred miles of another 25% located in eastern Saudi Arabia. “Once [former Iraqi President Saddam Hussein] acquired Kuwait and deployed an army as large as the one he possesses, he was clearly in a position to be able to dictate the future of worldwide energy policy, and that gave him a stranglehold on our economy and on that of most of the other nations of the world as well,” he noted. Cheney insisted that the United States had no choice but to employ military force in the defense of Saudi Arabia and other friendly states in the area.

Once Iraqi forces were driven from Kuwait, the United States adopted a policy of containment of Iraq, enforcing severe economic sanctions and “no-fly” zones over northern and southern Iraq to weaken the Hussein regime and to prevent any new attacks on Kuwait and Saudi Arabia. At the same time, Washington substantially expanded its military presence and bases in the Persian Gulf area in order to facilitate future U.S. military operations in the region. Most importantly, the Department of Defense sent vast quantities of munitions to Kuwait and Qatar so that troops could be rushed into combat without waiting weeks or months for the arrival of their heavy equipment.

By early spring of 2002, the Bush administration concluded that the policy of containment was not sufficient to eliminate the threat Hussein posed to U.S. interests and that more aggressive action was required. Although Iraq's alleged possession of weapons of mass destruction was cited as the main reason for acting in this manner, Cheney gave equal importance to U.S. energy security in his much-quoted speech of Aug. 26, 2002. “Should [Hussein's] ambitions [to acquire weapons of mass destruction] be realized, the implications would be enormous for the Middle East and the United States,” he told the annual convention of the Veterans of Foreign Wars. “Armed with an arsenal of these weapons of terror and a seat at the top of 10% of the world's oil reserves, Saddam Hussein could then be expected to seek domination of the entire Middle East, take control of a great portion of the world's energy supplies, [and] directly threaten America's friends throughout the region.”

Officials told the public that oil had nothing to do with the motives for the March 2003 U.S.-led invasion of Iraq. “The only interest the United States has in the region is furthering the cause of peace and stability, not in [Iraq's] ability to generate oil,” White House spokesperson Ari Fleischer said in late 2002. But a closer look at the administration's planning for the war reveals a very different picture. In a January briefing by an unnamed “senior Defense official” on U.S. plans for protecting Iraqi oil fields in the event of war, the Pentagon leadership revealed that Gen. Tommy Franks and his staff “have crafted strategies that will allow us to secure and protect those fields as rapidly as possible in order to preserve those prior to destruction.”

The senior official, who presumably was Deputy Secretary Paul Wolfowitz, indicated that the Bush administration sought to capture Iraq's oilfields intact to provide a source of revenue for the reconstruction of the country. Under the Hussein regime, Iraq was a major oil supplier to the United States. It provided an average of 566,000 barrels per day in 2002, or 5% of total imports. Many in Washington hope to obtain far more oil from Iraq in the future. According to the U.S. Department of Energy, Iraq possesses proven reserves of 112.5 billion barrels, more than any other country ex-

cept Saudi Arabia, and it is thought to possess another 200 billion barrels in undeveloped fields. Iraq could become a leading oil supplier in the decades ahead, if a stable government is established that opens territory to exploitation by U.S. firms.

Such an outcome is far from assured. Policy makers face the challenge of ensuring that Saudi Arabia and other gulf producers increase oil supplies enough to meet growing U.S. and international demand. Another challenge will be protecting the Saudi regime against internal unrest and insurrection.

The need to increase Saudi production is particularly pressing. With one-fourth of the world's known oil reserves, an estimated 262 billion barrels, Saudi Arabia is the only country other than Iraq capable of satisfying ever-increasing petroleum demands. According to the Department of Energy, Saudi Arabia's net petroleum output must grow by 133% over the next 25 years, from 10.2 mbd in 2001 to 23.8 mbd in 2025, in order to meet anticipated world requirements at the end of that period. Expanding Saudi capacity by 13.6 mbd, which is the equivalent of total current production by the United States and Mexico, will cost hundreds of billions of dollars. It also will create enormous technical and logistical challenges. Western analysts believe the best way to achieve this increase is to persuade the Saudis to allow substantial U.S. oil-company investment. The Cheney report calls for exactly that. However, any effort by Washington to apply pressure on Riyadh is likely to meet with significant resistance from the royal family, who nationalized oil holdings in the 1970s and is fearful of being seen as overly subservient to the United States.

The strong U.S. ties to the Saudi royal family are unpopular with the regime's many opponents. Additionally, growing numbers of young Saudis have turned against the United States because of its close ties to Israel and what is seen as Washington's anti-Islamic bias. It was from this milieu that Osama bin Laden recruited many of his followers in the late 1990s and obtained much of his financial support. After the attacks of September 11, 2001, the Saudi government cracked down on some of these forces, but underground opposition to the regime's military and economic cooperation with Washington persists. Finding a way to eradicate this opposition while persuading Riyadh to increase its oil deliveries will be one of the most difficult challenges facing U.S. policy makers in the years ahead.

Caspian Sea Basin

Although the United States will remain dependent on oil from the Persian Gulf area for a long time to come, officials seek to minimize this dependency to the greatest degree possible by diversifying the nation's sources of imported energy. “Diversity is important, not only for energy security but also for national security,” President Bush declared on May 17, 2001. “Overdependence on any one source of energy, especially a foreign source, leaves us vulnerable to price shocks, supply interruptions, and in the worst case, blackmail.” To prevent this, the administration's energy plan calls for a substantial U.S. effort to boost production in a number of non-gulf areas, including the Caspian Sea basin, the West Coast of Africa, and Latin America.

The one that is likely to receive greatest attention from policy makers is the Caspian Sea basin, consisting of Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Turkmenistan, Tajikistan, Uzbekistan, and adjacent parts of Iran and Russia. According to the Department of Energy, this area houses proven reserves (defined as 90% probable) of 17 to 33 billion barrels of oil, and possible reserves (defined as 50% probable) of 233 billion barrels. If the amounts were confirmed, they would constitute the second largest untapped reserves after the Persian Gulf area.

To ensure that much of this oil will eventually flow to consumers in the West, the U.S. government has made strenuous efforts to develop the area's petroleum infrastructure and distribution system. The United States first sought access to the Caspian's oil supplies during the Clinton administration. Because the Caspian Sea is land-locked, its oil and natural gas must travel by pipeline to other areas. Tapping the resources requires the construction of long-distance export lines.

The administration was reluctant to see Caspian oil flow through Russia on its way to Western Europe, since that would allow Moscow a degree of control over Western energy supplies. Transport through Iran was prohibited by U.S. law because of that country's pursuit of weapons of mass destruction. So Clinton threw his support behind a plan to transport oil and gas from Baku in Azerbaijan to Ceyhan in Turkey via Tbilisi in the former Soviet republic of Georgia. Before leaving office, he flew to Turkey to preside at the signing ceremony for a regional agreement permitting construction of the $3 billion Baku-Tbilisi-Ceyhan (BTC) pipeline.

While concentrating on the legal and logistical aspects of procuring Caspian energy, the Clinton administration also addressed the threat to future oil deliveries posed by instability and conflict in the region. Since many of these states were wracked by ethnic

and separatist conflicts, the administration initiated a number of military assistance programs aimed at strengthening their internal security capabilities. This entailed providing arms and training along with conducting joint exercises.

Building on Clinton's efforts, the Bush administration sought to accelerate the expansion of Caspian production facilities and pipelines. “Foreign investors and technology are critical to rapid development of new commercially viable export routes,” the Cheney report affirms. “Such development will ensure that rising Caspian oil production is effectively integrated into world oil trade.” Particular emphasis is placed on completion of the BTC pipeline and on increasing the participation of U.S. companies in Caspian energy projects. The administration also sought to build an oil and gas pipeline from Kazakhstan and Turkmenistan on the east shore of the Caspian to Baku on the west shore to channel more energy from Central Asia to the BTC system.

Until September 11, 2001 U.S. involvement in the Caspian Sea basin and Central Asia had been restricted mostly to economic, diplomatic, and military aid agreements. To combat the Taliban and Al Qaeda in Afghanistan however, the Department of Defense deployed tens of thousands of combat troops in the region and established military bases in Kyrgyzstan and Uzbekistan. The administration recalled some of these troops but apparently plans to maintain bases and a permanent military presence. This is supposedly intended to assist in the war against terrorism, but it is also to safeguard the flow of petroleum. The administration deployed military instructors to Georgia to provide counter-insurgency training for special units that will eventually guard the Georgian segment of the BTC pipeline.

The White House has high hopes for the development of Caspian Sea energy supplies, but many obstacles remain. Some of these are logistical: Until new pipelines can be built, transport of large quantities of oil to the West will be tough. Other obstacles are political and legal: The authoritarian regimes that predominate in the former Soviet republics are riddled with corruption and reluctant to adopt the legal or tax reforms needed to attract large-scale Western investment. But when all is said and done, the major problem facing the United States is that the Caspian basin is no more stable than the Persian Gulf. Any effort to ensure the safety of energy deliveries will require the same sort of military commitments that the United States has long made to its principal energy suppliers in the gulf.

West Africa

Another area the Bush administration views as a promising source of oil is West Africa. Although African states accounted for only about 10% of global oil production in 2000, the Department of Energy predicts that their share will rise to 25% by 2020. That will add 8.3 mbd to global supplies, welcome news in Washington. “West Africa is expected to be one of the fastest-growing sources of oil and gas for the American market,” the Cheney report observes.

The administration expects to concentrate its efforts in Nigeria, its neighboring states in the Gulf of Guinea, and Angola. As in the Caspian region, however, U.S. hopes to obtain additional oil from Africa could be frustrated by political unrest and ethnic warfare. Indeed, much of Nigeria's production was shut down during the spring of 2003 because of ethnic violence in the Delta region, the site of much of Nigeria's onshore oil. Local activists have occupied offshore oil facilities to bargain for community project funding. Crime and vandalism have also hampered Nigeria's efforts to increase oil production.

The United States is not likely to respond to these challenges by deploying troops. That undoubtedly would conjure up images of colonialism, provoking strong opposition at home and abroad. But Washington is willing to step up military aid to friendly regimes in the region. Total U.S. assistance to Angola and Nigeria amounted to some $300 million in fiscal years 2002 through 2004, a significant increase over the previous three-year period. In fiscal 2004, Angola and Nigeria also became eligible to receive surplus arms under the Pentagon's Excess Defense Articles program. Meanwhile, the Department of Defense has begun to secure rights for the establishment of naval bases in the region, most notably in Nigeria and the islands of Sao Tomé e Principe.

Latin America

Finally, the Cheney plan calls for a significant increase in U.S. oil imports from Latin America. The United States already obtains a large share of its imported oil from the region. Venezuela is now the third largest supplier of oil to the United States, after Canada and Saudi Arabia; Mexico is the fourth largest, and Columbia is the seventh. As indicated by Secretary of Energy Abraham, “President Bush recognizes not only the need for an increased supply of energy, but also the critical role the hemisphere will play in the administration's energy policy.”

In presenting these aspirations to governments in the region, U.S. officials highlight their desire to establish a common framework for energy development.

"We intend to stress the enormous potential of greater regional energy cooperation as we look to the future," Abraham told the Fifth Hemispheric Energy Initiative Ministerial Conference in Mexico City on March 8, 2001. "Our goal [is] to build relationships among our neighbors that will contribute to our shared energy security; to an adequate, reliable, environmentally sound, and affordable access to energy." However sincere, these comments mask the fact that the "cooperation" is essentially aimed at channeling more and more of the region's oil supplies to the United States.

The energy plan emphasizes acquisition of additional oil from Mexico and Venezuela. "Mexico is a leading and reliable source of imported oil," the Cheney report observes. "Its large reserve base, approximately 25% larger than our own proven reserves, makes Mexico a likely source of increased oil production over the next decade." Venezuela is considered vital because it possesses large reserves of conventional oil and houses vast supplies of so-called heavy oil, a sludge-like material that can be converted to conventional oil through a costly refining process. According to the NEP, "Venezuelan success in making heavy oil deposits commercially viable suggests that they will contribute substantially to the diversity of global energy supply and to our own energy supply mix over the medium to long term."

But U.S. efforts to tap into abundant Mexican and Venezuelan energy supplies will hit a major snag. Because of a long history of colonial and imperial predation, these two countries have placed their energy reserves under state control, establishing strong legal barriers to foreign involvement in domestic oil production. While they may want to capitalize on the benefits of higher volume exports to the United States, Latin American countries are likely to resist more U.S. participation in their energy industries and any significant increase in oil extraction.

The NEP calls on the secretaries of Commerce, Energy, and State to lobby their Latin American counterparts to eliminate or soften barriers. However, in Mexico, reform bills to ease entry of private oil companies have encountered stiff resistance in Congress. In Venezuela, a new Constitution adopted in 1999 bans foreign investment in the oil sector, and in 2003, President Hugo Chávez fired managers of the state-owned oil company Petróleos de Venezuela S.A. who favored links with foreign firms.

Bush Energy, Military Plans Linked

In its pursuit of petroleum, the United States is intruding in the affairs of the oil-supplying nations. In the process, it exposes itself to increased risk of involvement in local and regional conflicts. This reality has already influenced U.S. relations with the major oil-producing nations and is sure to have an even greater impact in the future.

At no point does the NEP acknowledge this. Instead, it focuses on the economic and diplomatic dimensions of the energy policy. However, the architects of the Bush-Cheney policy know that ensuring access to some oil sources may prove impossible without the use of military force. The administration's military strategy takes up the slack with heavy emphasis on bolstering capacity to project firepower to key battlefields abroad. "The United States must retain the capability to send well-armed and logistically supported forces to critical points around the globe, even in the face of enemy opposition," states its Quadrennial Defense Review.

These critical points would necessarily include areas that are petroleum sources. Whether or not the administration consciously linked energy with its security policy, Bush undeniable prioritized the enhancement of U.S. power projection at the same time he endorsed increased dependence on oil from unstable areas.

As a result, a two-pronged strategy governs U.S. policy toward much of the world. One arm of this strategy is to secure more oil from the rest of the world, and the other is to enhance the capability to intervene. While one of these objectives arises from energy preoccupations and the other from security concerns, the upshot is a single direction for U.S. dominance in the 21st Century. It is this combination of strategies, more than anything else, that will anchor the United States' international relations for years to come.

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NATURAL GAS UPDATES - A DARK AND COLD FUTURE

by

Dale Allen Pfeiffer -- *FTW* Energy Editor

[On January 16th CNN posted a news story regarding the demands posed by an arctic weather front which contained the quote, "The weather has created high demand for electricity, and as a result some power generating plants ran out of natural gas Thursday and increased the burden on other plants, according to ISO New England." As this story began to circulate it was quickly realized that panic might follow a confirmed announcement of gas shortages. The following day, Connecticut's New Haven Register published a banner story headlined Natural Gas Alarm Spurs Probe" which opened with the lead: "There is no natural gas shortage.

But in an investigation also launched Friday, State Attorney General Richard Blumenthal alleged that profiteering power-generation companies nearly forced blackouts in New England Thursday. Blumenthal said that electrical-generation companies sold fuel needed by their power plants on the spot markets to capitalize on soaring prices for natural gas."

Blaming the power companies for these events is a weak attempt to disguise an ever-more-apparent catastrophe looming in the near future for North America. Experts familiar with natural gas production figures understand that this is just the beginning of what is to come. Australia's THE AGE reported on January 14th that, "Australia is confident it can win liquified natural gas contracts with the United States worth up to $50 billion, amid warnings that America is facing a looming energy crisis."

In describing the new LNG contracts The AGE went on to report: "American liquefied natural gas imports are expected to increase ten-fold over the next six years and total US energy consumption is expected to surge by about 32 per cent over the next two decades.

"The Bush Administration has admitted that America's capacity to meet its voracious hunger for energy through domestic production is limited.

"[Energy Minister] Macfarlane warned that the US could face an energy crisis that would rival the 1973 and 1980 oil price shocks. Both events triggered a combination of soaring inflation and economic stagnation in the major economies of the world. 'The US has only very recently become open about their energy requirements, and some say it's as big a crisis, or potential crisis, as during the oil shocks,' he said."

The difference is that in past oil shocks there were other places to go to obtain immediate supplies. Given the fact that LNG imports require huge, costly and dangerous terminals which don't exist, and a tanker fleet which has not been built, the comparison falls short. With the crisis now firmly on the table it is time for a close and honest look at the real natural gas production numbers and to understand that significant LNG imports are perhaps a decade and billions of dollars of investment away. They will certainly not be enough -- or in time -- to prevent what is becoming a stark reality. FTW's Energy Editor Dale Allen Pfeiffer takes us through the hard, cold and unforgiving numbers. – MCR

January 19, 2004 2200 PDT (*FTW*) -- Last summer, we stated that a natural gas (NG) crisis was looming and could strike by winter time under several key conditions. A major crisis may have been averted by a merciful warming trend in the northeast, but we are as close to the precipice as ever.

WHAT HAPPENED?

This past (2003) NG refill season saw record injection rates for every month from June through October. Wall Street analysts quickly attributed these injection rates to large-scale reductions in industrial NG demand. The crisis has been fully averted, they say, and we began winter with a nice, cushy NG reserve "well in excess" of three trillion Cubic Feet (Tcf). Three Tcf of storage has long been considered adequate to meet winter heating demand. These analysts insist that the market has demonstrated that it has the dynamics to solve our energy problems as it seeks to maintain balance.

This was easy to say at the time. In the United States, we do not keep accurate figures on NG production, imports and storage on a weekly or even a monthly basis. The Energy Information Administration (EIA) issues weekly and monthly estimates based on preliminary reports from industry players. But, the hard data takes several months to assemble. And so the hard data reports on monthly summer NG use and injection are only now being issued.

According to these reports, from April through July of 2003, 1.365 Trillion cubic feet (Tcf) of NG was injected into storage. That is an increase of 344 billion cubic feet (Bcf) over injection from the same period in 2002 (1.021 Tcf in 2002)[1]. However, these reports also state that the amount of NG consumed to generate electricity over this same period decreased by 375 Bcf.[2]So the decrease in electricity generation accounts for more than 100% of the increase in injection.

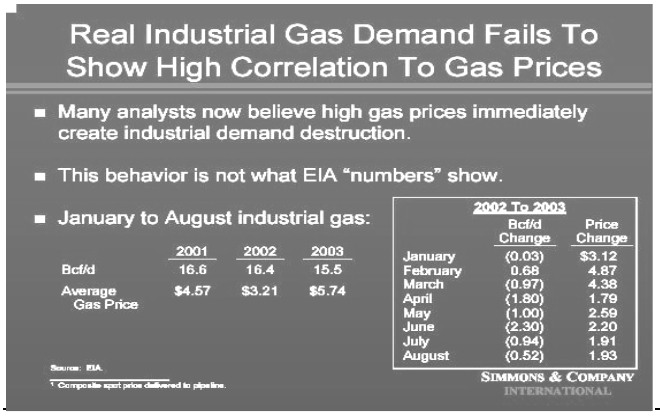
And what was the reason for the decrease in electricity generation?
Mild weather led to a reduction in summer air conditioner usage. Sixty-two percent (62%) of this decrease in electricity generation is attributable to last summer's mild weather; 21.5% attributable to adding more efficient combined cycle units; and the remaining 16.5% due to greater utilization of oil-fired electricity generation and fuel switching from NG to residual fuel at a small number of generating plants.[3] Once hard data is released for the month of August, we are confident that this pattern will hold true for the entire summer. Furthermore, during the remainder of the injection season (August, September, and October) the weather in North America continued to be mild. October proved to be much warmer than the same month a year previously, resulting in a decrease of 73 Heating Degree Days (HDD). Finally, there was no significant loss of production due to shut-in of wells during the fall hurricane season.

We couldn't have hoped for better weather conditions to allow the re-injection of NG into storage. Such a combination of fortunate conditions, in a phenomenon as dynamic and unstable as the weather, is enough to tempt speculation. But we will avoid such speculation here and simply say that we cannot rely on the weather favoring us over the long term.

COOKING THE BOOKS?

Wait a minute! NG electricity generation declined by more than the increase in NG injection—almost 10% more in fact. So what happened to the other 31 Bcf in decreased NG electricity generation? Chairman of Energy Ventures Group, Andrew Weissman, speculates that core industrial consumption of NG actually increased during the summer.[4] This would make sense in light of the "economic recovery" spurring industrial consumption so necessary for a Bush re-election.

So much for reduced industrial demand. There has been a large reduction in the industrial consumption of natural gas over the last three years. But most of this reduction occurred in the 2000/2001 winter heating season and in the year following that.[5]In a study released last year, the National Petroleum Council stated that the maximum remaining industrial fuel switching capability (gas to oil), is no more than 200 Bcf, and possibly as low as 100 Bcf.[6] This equates to a daily reduction of no more than 0.33 to 0.67 Bcf/day, as opposed to reduction estimates of 1.5 to 2.0 Bcf/day insisted upon by various analysts.[7]



Energy investment banker and White House adviser, Matthew Simmons, agrees with this assessment. Mr. Simmons points to EIA data which suggests that a rise in NG prices does not necessarily lead to industrial demand destruction, as this slide from a recent presentation by Mr. Simmons demonstrates: *Taken from The Natural Gas Riddle, Matthew Simmons*[8]

In a nutshell, we were very lucky this past year. And we cannot expect to remain so lucky in the future. There has

been no structural change in the NG market which will reduce the likelihood of an NG crisis in upcoming years.

The Current Situation—Crisis Still Looming And A "Bombshell" Report

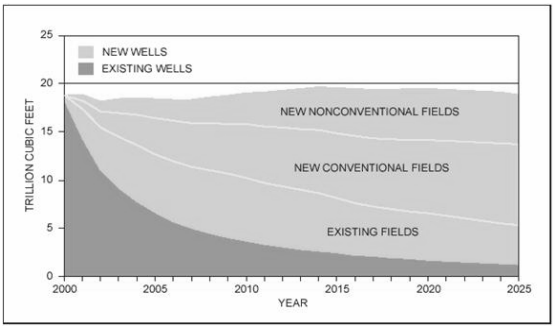
The National Petroleum Council (NPC) is an oil and natural gas advisory committee to the secretary of energy. It was their 1999 assessment of the US energy market which spurred on the development of over $100 billion in new gas-fired power generating units over the past four years. In their 1999 study, the NPC failed to take into account that all of the major NG fields in North America were maturing, or the rapid rate of production decline in these aging fields and in the remaining smaller fields.

Over the next couple of years, actual production data was soon at variance with NPC projections. Secretary of Energy Spencer Abraham commissioned a new report taking a much closer look at NG production. The Council was then provided with better funding and stronger technical support than was made available in 1999.

The resulting report issued in September of 2003, Balancing Natural Gas Policy – Fueling the Demands of a Growing Economy[9], is something of a bombshell which has as yet received far too little attention. This report gives warning that the United States is facing a severe NG crisis within the next 10 years. And at this point, it is likely that there is nothing we can do to avoid the crisis.

The NPC found that by 2002, NG production was already 6 Bcf/day below their 1999 forecast. They further predicted that by 2015, traditional NG production for the US and Canada will fall 21 Bcf/day short of the amount needed to meet the demands of the US market.[10] Compared with their 1999 study, this is a downward revision of 22% in just two years since the first study was released. And it is almost a certainty that the gap will widen in the years to come.

The NPC credits its downward revision to three factors:



1. A reduction in the estimate of technically developable reserves in the US and Canada.2. An unforeseen rapid production drop-off in existing fields in both the US and Canada.3. A significant decline in the size of new wells in the US and Canada.[11]

In fact, the NPC has confirmed FTW's earlier reports that new fields are declining faster than old fields, so that more and more wells are being drilled just to keep production from falling too drastically. Even the increase in new drilling, under the best of circumstances, only holds production level in the short term. It does not meet projected demand or even remotely provide for economic growth. The NPC report offers the following graph, which is reminiscent of the graph we produced in our July 2003 report. (*taken from Balancing Natural Gas Policy—Fueling the Demands of a Growing Economy. National Petroleum Council, 9/25/2003. http://www.npc.org/reports/NG_Volume_1.pdf*)

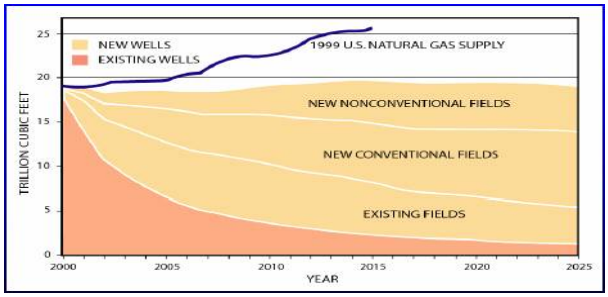
ALASKA AND ANWAR NO SOLUTION

As for the solutions proposed by the NPC—the Alaskan NG pipeline and increased Liquid Natural Gas (LNG) capacity—both are long range projects which will only provide relief in a decade if construction is undertaken immediately. The Alaskan pipeline will only make up at most 21.5% of the NPC's presently projected shortfall. The rest will have to come from LNG, which is an expensive undertaking.

While projecting diminishing NG production capacity, the NPC states that for the economy to continue growing at a healthy rate, it will be necessary to increase supplies of natural gas by at least 3.39 trillion cubic feet per year (Tcf/year) by 2010, and by at least 5.19 Tcf/year by 2014.[12] Yet, between now and 2007 there is not likely to be any net increase in the supply of NG to the US.[13]

ECONOMIC DISASTER – THE GAP BETWEEN DEMAND AND SUPPLY

Matthew Simmons has taken the graph shown [here] and projected a line onto it to show the amount of natural gas we will need for a healthy economy based on the NPC studies. The result is disturbing. (taken from **The Natural Gas Riddle: Why are Prices so High? Is a Serious Crisis Underway?** Simmons, Matthew. http://www.simmonsco-



Simmons points out that the gap between what will be needed by the year 2010 and conventional sources will be 6 Tcf/year, or 16 Bcf/day. He states that filling this gap by 2010 would require 30 to 40 LNG projects.[14]

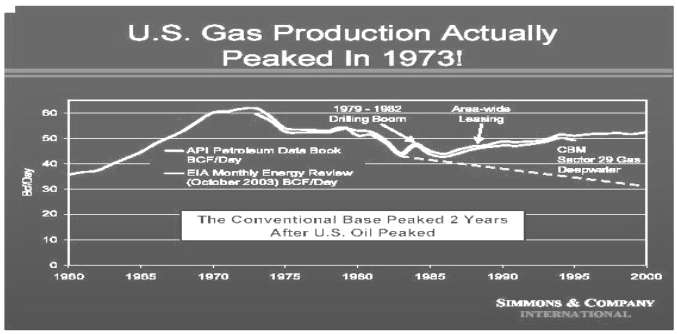
In a survey of 26 key natural gas producers (equivalent to

roughly 55% of the US NG supply), Simmons & Co. found that, on average, 3rd quarter gas production was down 4.8% from a year earlier.[15] Mr. Simmons states that even opening the Outer Continental Shelves to drilling and the development of deep sea rigs would not make a difference for several years.

TEXAS GHOST TOWNS – "CANADA DRY" – FALLING PRODUCTION

According to data from the Texas Railroad Commission (which keeps track of state NG production), Texas gas production is sliding over the cliff. September 2003 production was down 4% from August 2003, and October production was down another 8% from September production. In October 2003, Texas NG production was down 12% from October 2002.[16] Canadian NG exports are also down, 13% less in September 2003 than the same month a year ago.[17]

As an indication of how bleak the outlook is for North American gas production, all of the major petroleum players are cutting back North American NG exploration and are instead looking overseas. Compared with last year, BP's natural gas production in the lower 48 states fell 13 percent, according to Lehman Brothers. ExxonMobil's production was down 10 percent, ChevronTexaco's production slipped 11 percent and Royal/Dutch Shell's production declined by 15 percent.[18]



Finally, Matthew Simmons has produced a graph illustrating that U.S. NG production peaked in 1973, just 2 years after US oil production peaked. (taken from **The Natural Gas Riddle: Why are Prices so High? Is a Serious Crisis Underway?** Simmons, Matthew. http://www.simmonsco-intl.com/files/IAEE%20Mini%20Conf.pdf)

The peak was not readily apparent at the time because NG demand was relatively low until the 1990s, and because of the masking effect of increasing offshore production.

CURRENT STORAGE AND WEATHER

Most analysts breathed a sigh of relief as we began this winter heating season with 3.2 Tcf of NG in Storage. It has long been felt that 3 Tcf is an adequate storage supply of NG to see us through the winter. Andrew Weissman, of Energy Ventures Group, points out that this does not take into account increasing demand or the decline in US production.

Overall, the winter of 2002/2003 was only 0.9% colder than the historical norm.[19] Yet, from November 2002 until midway through April 2003 (when the heating demand truly ended), 2.442 Tcf of NG was withdrawn from storage. Given a storage figure of 3 Tcf, that would leave only .558 Tcf at the beginning of the next refill season, which is well below the critical point. How are we going to build up again? With what? From where?

A DEADLY BET

Statistically speaking, with a deviation from the historical norm of only 35 HDD's, the winter of 2002/2003 was an average winter. Three years ago, the winter deviated from historical norms by 356 HDD's.[20] A repeat of that weather pattern this year would result in natural gas consumption 5 Tcf more than last year.

In such a case, total withdrawal from storage could be equal to last year's withdrawal plus another 500 Bcf, plus as much as another 100 to 250 Bcf to account for continued deterioration in U.S. production, continued declines in imports from Mexico, and the addition of approximately 1.0 million new gas-heated homes over the course of the past year.[21] Total withdrawal = 2.442 Tcf + 500 Bcf + 100~250 Bcf = 3.042~3.192 Tcf.

As stated, we began this winter with 3,200 Bcf of NG in storage. A withdrawal of this size would leave us with only 58 to 8 Bcf! Of course, it is unlikely in reality that storage could ever fall that low. At some point below 600 Bcf, storage facilities will become unpumpable due to inadequate pressure.

CONCLUSION

Due to the introduction of new gas fired electrical generating plants, NG demand is expected to grow even more rapidly starting in 2004, and continue for the next several years. The opportunities for fuel switching and industrial demand destruction are very limited. All of our other options involve several years of construction and a substantial investment.

Currently, the weather is the critical factor in deciding whether or not we will have a NG crisis this year or next. However, even if the weather should continue to be mild for the next several years, it is only a matter of time before the difference between increasing demand and declining production will grow great enough to spark a crisis of its own accord.

It will be a miracle if the deteriorating NG supply does not devastate the economy. We can all look forward to rising heating costs, rising electrical costs, and rising food costs as the price of NG ultimately affects the price of fertilizer. I recommend that everyone take up gardening. Some thoughtful folks have established a website which offers further advice for coping with high NG costs: http://www.econogics.com. There are some very good suggestions on this website.

Author's Note:

The author of this article has been very busy for the past month going over the galley proofs for his latest novel, Giants in Their Steps (http://www.lulu.com/allenadale). He offers a tip of the hat to the members of EnergyResources for most of the research contained in this article.

ENDNOTES:

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