

# Transportation Energy Crisis

## 2008 FINANCIAL OUTLOOK

Due to the continuing spike in crude oil, our industry has been suffering dramatically;

- Congress has done nothing to alleviate the trucking industry turmoil;
- The politicians feel that the market will adjust to itself;
- Meanwhile, in the first quarter of 2007, the trucking industry had approximately 1,000 transportation bankruptcies and/or companies close their doors;
- This excludes thousands of owner operators that turned their trucks in because they could not afford to operate them any longer.

Many of my clients have asked me if I feel the energy crisis will subside shortly and the answer is no;

- The energy crisis is an urgent problem.

Although, I initially stated that oil could reach \$200 a barrel, I don't believe it's going to hit that mark in the near term; but we are certainly in a world that is having a hard time raising production and the United States is vulnerable to any downturn in supplies.

Most recently, the latest threat by Israel made it clear that it will not tolerate Iran gaining nuclear technology. That could spell problems for our industry.

Last week, Israel threatened to go into Gaza, which will certainly incur Iran's displeasure. Although the United States has no love loss for the Iranians, we can't help but worry once the Iranians run out of oil for export, what will the effect do to the United States?

When oil is approaching \$140 a barrel, it definitely presents a problem for the trucking industry. It would take a worldwide recession to bring real relief to the energy situation and then it would only be temporary.

The bottom line, Congress and the politicians need to do something immediately – but don't hold your breath.

Recently Stephen Leeb, who writes a syndicated Investment letter, entitled *The Complete Investor*, did some research on money being spent on energy;

- That total is only \$4 to \$5 Billion a year, and;
- That's less than what we spend on Iraq every 50 days.

The problem is we need to fund more energy research because the current state of the economy is very challenging for our industry/economy.

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**With so little money being spent on energy research, it could be that there is a significant amount of discoveries that could help us reduce oil consumption, find more oil or develop new energy sources.** But we are a country that thrives on profits, **and why would the oil companies want to spend money on research with no tax advantages** when they are making record profits? **In closing, is the housing fiasco coming to a halt?** I don't believe so because we still haven't seen the fallout from builders that borrowed money for construction loans to build subdivisions that will now also be in default.

**It's indisputable that world wide demand has surged, chiefly driven by strong growth in China, India and the Middle East.** However, most of the world's reserves are controlled by governments in countries like Russia and Venezuela that mismanage production, thus curtailing supply growth.

**Today, the sudden surge in demand and the production "bottle necks" have thrown the market radically out of balance so the question is, will it every correct itself?** It's also important to understand that a big segment of the market isn't paying \$140 a barrel for crude oil. In China, India and the Middle East, governments are heavily subsidizing oil for consumers and corporations, which lead to rampant over-consumption, which drives up prices even more. **Sooner or later the world can't keep paying these prices and the price must fall back to the cost of the last barrel to clear the market.**

**According to Steven Brown, an economist at the Dallas Federal Reserve, that final barrel cost is \$50 to produce.** When the price of crude oil is \$135 to \$140 a barrel, the incentive to produce more oil is irresistible, so it takes a while for the curve to change.

**At the same time, there are some positive actions in the private sector;**

- Shale Oil costing approximately \$70 a barrel is now being produced in the Dakotas;
- Tar Sands are attracting investments in Canada at approximately \$70 a barrel, and;
- New technology could minimize the pollution caused by producing oil from our super plentiful supplies of coal.

**History demonstrates that when there is this much money to be made, new supplies do not get developed.** The long and short of our industry is that;

- Currently fuel costs are crippling the trucking industry, therefore;
- Each trucking company must review every single line item expense to survive; this is one of the most tumultuous times in our industry;
- The longer the prices stay stratospheric, the worst, the eventual crash simply because the higher the prices and the bigger the profit margins, the bigger the incentive to over produce.

**It's a Catch 22!**