

Special Edition

Transportation News - Fuel Costs

Over the last several months, I have received numerous emails and telephone calls from my customers indicating that with oil consumption at its lowest level since 1998, why are diesel prices fluctuating and what's going to happen in the future?

As an analyst, you have to look at the long term data available; the flat lining of energy demand confirms that the US economy has not grown much over the past decade. Even allowing for conservation, a 12 year period of no growth is unprecedented in the United States. Indeed, there is seven a possibility the growth in America has been over stated.

However, despite the lack of US growth, oil has been on a rapid pricing increase. In 1998, oil sold for approximately \$14.00 a barrel. Since then, oil prices have raised 10 fold. If the US economy is flat lining, why such a huge move if demand isn't growing?

The answer; the rise in oil prices is due directly to the fact that the US demand is no longer the key driver of oil prices. Instead, oil prices are being driven by demand elsewhere in the world.

It's not surprising, that the US seems to be losing some of its position with the biggest oil producers. For example; we are no longer Saudi Arabia's most important trading partner. That distinction has now gone to China, which now imports more Saudi oil than the United States and is, therefore, more important.

If we don't start controlling our own destiny, this change could have a more profound implication for the US economy in the future. Probably, the major reason the US dollar has maintained its status, as a reserved currency, is that oil and other commodities have traditionally been priced in dollars. If oil were to be priced in Chinese Yuan, the dollars reserved currency status would be in trouble.

Most analysts aren't predicting such a change will occur, but with China growing in importance to Saudi Arabia, it could be a matter of time. However, the one thing that the dollar has going for it is that the American influence, on the world, is backed by the world's most powerful military. In particular, the US military has a hammer lock on Saudi Arabia, supplying the kingdom with, virtually, all of its defense needs.

Under these circumstances, the Saudi's can turn their back on the US overnight. Then, again, China is building its military capacity and might, one day, be able to fill in any gap left by the US.

My point; in order for the US to continue to be the dominant power in the world, we're going to have to focus on our long term needs. Since oil is becoming in shorter supply, alternative energy is something that needs to be addressed now.

Last week, on CNN news, Stephen Loeb, who is a leading economist, discussed nuclear power. He was asked what he thought about the US government guaranteeing 2 proposed nuclear reactors to be built in the state of Georgia. Loeb's comment; he had no problem with the project, but he pointed out that he felt that the main purpose of building those two reactors was to score political points. He stated that, while the United States is busy celebrating the possibility of two new reactors, China plans to build 355 nuclear reactors over the next 15 years. That's what I said; 355 reactors.

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If oil becomes a scarce commodity, and the US plans to build 2 reactors and China plans to build 155; who do you believe is going to be able to control their own financial destiny? As truckers, you need to be concerned about how you are going to continue to perpetuate your business in the future. **As an economy, we need to shorten the time between approval of a project and the completion of a project. Currently, our bureaucracy chokes too many essential projects.**

My point; even though US oil consumption has fallen in the past 12 years, as a percentage of our needs, we are now importing more oil than ever before and our country's oil production is declining. We have to start looking at long term energy alternatives instead of basking in our short term comfort. **If some of you remember your history, during WWII, we converted factories to munitions' productions at record speed!** Of course, the rest is history; we won the war. **We need to develop alternative energy, just as quickly, if we want to hold our position in the world economy.**

As an American economy, we've always been very resilient. However, it seems that (over the last decade) we're caught up in politics and what's politically correct, and we don't address what's in the best interest of our country's future. **It's very hard to stimulate the economy; it's very hard to change the unemployment situation,** and it's very difficult to control fuel cost when you don't have an aggressive energy program;

- If we were like China, and planned on building 155 nuclear reactors;
- That would stimulate the US economy.
- That would certainly reduce the US unemployment rate, and;
- Would certainly "drive" more spendable income into our economy.

Instead, we're spending time attempting to regulate the insurance industry, the health industry and the banking industry with very little success.

(Excerpts taken from The Complete Investor)

QUOTE OF THE WEEK: "In the end, we will conserve only what we love. We love only what we understand. We will understand only what we are taught". (Baba Dioum)