The Oil Plans of Iran

By The Mogambo Guru

01/16/06 The Daily Reckoning PRESENTS: Looks like we have even more oil worries ahead, with all the noise that has been coming from Iran lately. The Mogambo Guru explores the reasons why oil is going to be more expensive…

THE OIL PLANS OF IRAN

If you want to talk about oil, then Toni Straka, of the Prudent Investor newsletter, notes that the world uses oil so fast that the globe has “a daily bill of roughly $5.5 billion for crude oil” at current prices.

Perhaps this huge use of dollars is what has everyone worried about the new Iran oil bourse (trading center) that is scheduled to crank up in March, and probably rightfully so. Instead of an American-controlled oil market and American friends and insiders getting rich making their slimy little backroom deals, now it will be an Iran-controlled oil market and Iranian friends and Iranian insiders making their little deals.

It’s all mox nix to me, as oil is going to rise mightily in price anyway, but all of those American oil-business scumbags have families to care for, bills to pay and these big, fancy cars that speed by me as I sit with my “Will work for food” sign around my neck. So, you can bet that they are all crapping in their pants at the thought of the end of a very long, very cozy and very profitable deal. Ergo, you can certainly make a case that George W. Bush and the U.S. Congress will OK a plan to invade Iran and take over the place, because that is the kind of treacherous, thieving, murdering scumbag that my beloved America has become in its increasing desperation.

Muckraker Report, which is from the Libertarian Party in Berkeley goes further than merely hypothesizing, and predicts how it will actually play out. Firstly, the government “must portray the Iranian President, Mahmoud Ahmadinejad, as a threat to the region and the world. Finally, once naive American people are convinced the ‘weapons of mass destruction’ that were to be found in Iraq are actually in Iran, coupled with the almost daily media coverage of Iran’s nuclear power / weapons program aspirations, and what we will soon have on our hands is another fabricated war that will result in tens of thousands of civilian lives being lost, all because the political elected pawns in Washington, DC, lack the discipline to return our currency to a gold or silver standard, end the relationship with the foreign banking cartel called the Federal Reserve, and limit the activities of the U.S. government to those articulated in Article I Section 8 of the Constitution for the United States of America.”

Wow! Nice going! I am impressed that they understand how money becomes money because of bank-created credit, so that someone could borrow some money, and then someone borrows the money from a bank, which turned the credit into money, and thus money equals debt. But they get zero points when they say, “If all debt were to be paid, there would be exactly zero U.S.

dollars in circulation because it will have all been returned to the vaults of the Federal Reserve. This might seem hard to fathom, but it is the gospel of fiat money."

Wrong-o. Actual cash can come into existence and not be part of any debt. All the government has to do is print up actual cash, and then use it to pay somebody for some goods or services. For example, if I finally get my dream job cleaning the toilets of the U.S. Treasury building (which is a much better job than the one I have now) and they pay me in cash, then money can come into existence without a corresponding debt. It's not much, but some!

Richard Maybury, in his newsletter Early Warning Report, notes that "81% of all the world's oil deposits" are in areas (which he calls "Chaostan") that are always kicking up sand with each other, and that his best guess is that "the Third World War and the war economy will last at least two more decades." He recommends that you load up on oil, gold, silver, platinum, defense industries, commodities and U.S. rural real estate.

John Chalcraft, of ProActive Communications, reminds us, "Investors are well aware of the soaring price of commodities such as gold and oil, but a fact going largely unnoticed in the investment community is that over the past three years the price of molybdenum has risen over 1000%."

Along the same lines, Gary North, published in The DailyReckoning, writes, "Six months ago, an analyst group made up of former top-level U.S. government officials calculated a global oil scenario. In this extremely likely scenario, just three minor disruptions in the already-strained world oil supply chain cause $150-a-barrel crude prices, a $5.32 pump price for gas, more than two million jobs lost, and a 28% drop in the S&P 500."

Well, if oil is going to get more expensive, what about natural gas? Les H. writes that a guy named Dr. Jean LaHerrere has models that "suggest that in about four years the supply of natural gas will be about 1/3 to 1/4 of today's supply." Another guy named Matt Simmons "has done extensive analysis of similar data and expects a severe drop in natural gas supply soon." As an aside, we learn that "The Peak Oilers refer to this coming crisis as the 'natural gas cliff event.' "

Speaking of oil, Les H writes to say, "Dr. Colin Campbell, who has a Ph.D. in geology from Cambridge University, points out that we now know the origin of oil. It isn't from dead dinosaurs. There were two very warm periods in the planet's history, one 140 million years ago and one 90 million years ago in which 'huge marine algal mats grew and settled to the bottom of the ocean. Now, to make oil from dead algae, the algae must spend some time at least 7500 ft below sea level, but no more than 15,000 feet below sea level, to turn the residue into oil. Too deep, and it becomes natural gas. Two shallow, and it is only oil shale.'"

Les steps in and extrapolates by saying, "But one thingee is for darn sure: one has to discover a natural gas field before it can be produced, and the rate of discovery is falling rapidly. We now are fully utilizing every rotary rig in the United States to try to find more fields. And for the last two years running, U.S. natural gas production has fallen about 4% per year. Dr. LaHerrere's analysis suggests that soon we will see a much more rapid decline."

The problem isn’t going get solved by more exploration and drilling, as Dr. Ken Deffeyes, professor emeritus of sedimentary geology at Princeton University, writes, “We have now found 94% of all the oil fields that have ever existed on the planet.” This is rather disconcerting news! Ugh.

Regards,

The Mogambo Guru
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Mogambo Sez: Nothing has changed, except that I am bored, as making money by buying and holding gold, silver and oil is so unexciting. And it will be continue to be both profitable and boring for a long, long time, too. So shut up and deal. And send the kid out for another six-pack…and some potato chips.