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## Bush must get Big Oil to look forward

**If he is serious about ending our oil addiction, he must push the industry on alternative fuels.**

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President Bush's recent statement that it's time to break America's addiction to oil surprised many Americans not just because it came from an "Oil Patch" man but because of the way he charted to get there.

It was the first time the President had called for action on oil security without touting domestic drilling. Instead, he envisioned a shift to battery-operated cars and vehicles running on next-generation fuels made from domestically available nonpetroleum energy resources.

Bush's decision to use the bully pulpit of the presidency for such a goal surely stems from his recognition that it is dangerous to buy billions of dollars worth of oil from nations that, in his words, "don't particularly like us," and that the petrodollars we provide such nations contribute to the terrorist threats we face.

But make no mistake: Neither the underwriting of terrorism nor the frantic weather patterns that caused last year's spike in gasoline prices would have been enough to get Bush to move beyond the traditional drill-as-much-as-you-can strategy if not for the alarm bells coming from the oil industry itself.

Although the industry is currently enjoying record revenues, a growing number of oilmen are sensing that the party may soon be over. They cannot produce enough cheap crude to meet the world's growing demand. The industrialized world is expected to consume roughly 30 percent more oil in 2025 than it does today. A much greater increase in demand is expected from Asia.

Yet, there is no indication that the oil industry can step up to the plate. In fact, the world consumes two barrels for every barrel discovered. When it comes to production, the situation is just as bad. World oil demand grew by 1.3 percent in 2005, requiring an additional one million barrels per day (m.b.d.). To replace depleting oil reserves, the industry should have come up with an additional 4.25 m.b.d. But rapid depletion in the North Sea, a slowdown in Russian production, hurricanes in the Gulf of Mexico, and a wave of terrorist attacks against oil facilities worldwide brought a disappointing net addition of 300,000 mbd.

What limits the oil companies' ability to ramp up production most of all is their exclusion from the areas where the lion's share of the world's reserves exists. Three-quarters of the world's reserves are in the hands of governments, not public companies. Many of those governments, particularly those that are members of OPEC, bar or limit Western oil majors from accessing their oil.

The fact that some 70 percent of the world's reserves are concentrated in Muslim countries when the West's relations with the Muslim world are increasingly acrimonious is not helpful either. In the few places where Western oil companies are still welcome, they often face challenges to their competitiveness from Chinese state-owned oil companies that enjoy the deep pockets and political backing of the communist government in Beijing.

As oil scarcity begins to ensue, oil companies begin to evaluate their role in the post-petroleum economy. Dave O'Reilly, the chief executive officer of Chevron, declared recently that "the era of easy oil is over." But this does not mean that the era of Big Oil is over as well. No doubt, nonconventional petroleum sources such as Canadian tar sands and oil shale will play a larger share in the companies' basket of products, but it is alternative fuels that could be key to the industry's future.

Big Oil holds not only the distribution system for most of the nation's transportation fuel, including most of the service stations, but also a significant amount of coal reserves and key technologies to convert coal and biomass into alternative fuels. ChevronTexaco, for example, owns coal-gasification technologies that allow production of liquid fuels such as

methanol from coal cheaply and cleanly. Shell Oil is the main investor in the technology to convert cellulosic biomass into ethanol, which Bush described in his State of the Union Address.

If Bush is serious about weaning America from its oil addiction, he should first and foremost urge his friends in the oil industry to internalize the changing realities in the oil business, think and invest out of the barrel, and assume a leading role in the massive effort on which he has embarked.

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