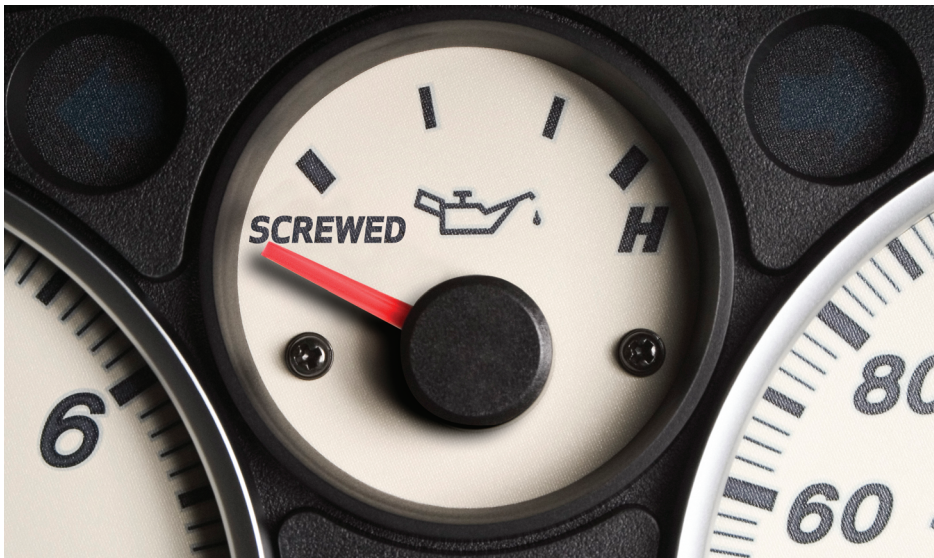


## THE OIL CRISIS:

**How Doomed Are We?**

ACCORDING TO ONE TOP ENERGY EXPERT: VERY



**IN THE OIL WORLD**, there are sheiks and barons, CEOs and Bushes. And then there is Amy Myers Jaffe, a straight-talking, nonpartisan oil analyst who counsels all of them. We asked Jaffe, director of the Energy Forum at the James A. Baker III Institute for Public Policy in Houston and one of Esquire's Best and Brightest in 2005, for her opinion on the current oil crisis and how we might fix it.

—TYLER CABOT

**ESQ:** Why are oil prices so high?

**AMJ:** Demand is just going up and up and up. And the major supply areas we expected to provide extra oil have not materialized. The best analogy is that of a child who's having a growth spurt. As the mother, you're going to wait until you have more money to buy him new clothes. But we waited and waited to the point where we can't button his pants. Now we are at the point where if he tears anything, it's a crisis.

**ESQ:** What are some possible tears?

**AMJ:** We could have refinery outages because of a hurricane, or the continuing

threat of Nigerian protesters in the delta could stop 400,000 barrels a day. Those things have an instantaneous impact on supply. They cause prices to go way up because we don't have any extra capacity anywhere. There are no extra oil refineries.

**ESQ:** What about getting oil from nontraditional, emerging suppliers?

**AMJ:** There are tons of what I call geopolitical barriers to investment. The new Venezuelan government came in and partly dismantled its oil-field-expansion program. You have the unrest in Nigeria, which slowed its program. You have po-

litical indecision in places like Kuwait and Saudi Arabia. Iran has all kinds of troubles, both with sanctions and other kinds of internal political problems. You have the problems in Iraq. In Russia, there's property-rights turmoil. Nobody knows who owns the oil assets and who has the right to develop them.

**ESQ:** So far, Congress has failed to lower prices. What more could it do?

**AMJ:** One possible solution is to improve the logistics for gasoline in the United States, so that Montana has to have the same clean gasoline as Houston and L. A. Today there are 14 different formulations of gas and about as many different regulatory policies. By standardizing the fuel supply nationally, if you have a shortage in one place, you can move gasoline from another place.

**ESQ:** Should we drill more?

**AMJ:** We had two major hurricanes last year, which knocked over oil platforms. But no beaches were destroyed. So I think that people are realizing that drilling and ruining beaches are not truly connected. And more, that there's a connection between not allowing drilling and having high natural-gas prices in the United States.

**ESQ:** Will things get worse?

**AMJ:** Definitely. We could have a bad hurricane season, and there could be a bad event in the Middle East at the same time. If that happens, people in this country likely won't get all the fuel they want. It's not just some remote possibility that we need to prepare for; it's something that could actually happen. In fact, over the next five years I put the chances of a major oil disruption at more than 50 percent.

## POTENTIAL CATASTROPHES

**Five Events That Could Cripple Our Oil Supply**

- 1) **SUCCESSFUL TERRORIST ATTACK ON SAUDI ARABIA'S PRIMARY OIL-PROCESSING FACILITY** in Abqaiq, which produces 7 million barrels per day (bpd), or 8 percent of the world's supply. **■■■■** (1 barrel being unlikely; 5 barrels, very likely)
- 2) **IRANIAN MINING OF THE STRAIT OF HORMUZ**, through which approximately 17 million barrels of oil (20 percent of the world's supply) pass daily. **■■■■**
- 3) **SIGNIFICANT ATTACK BY INSURGENTS AGAINST OIL FACILITIES IN SOUTHERN IRAQ**, where 1.5 million bpd are exported. **■■■■**
- 4) **PROLONGED SEVERE STORMS IN THE BLACK SEA** that interrupt Russian oil exports by 100,000 to 500,000 bpd. **■■■■■**
- 5) **MAJOR OIL-WORKER STRIKE** in Venezuela or Nigeria, which brings production—approximately 2.5 million bpd each—to a standstill. **■■■■**