

“Oil Prices Plunge! Where Will They Go From Here—Back Up, or Further Down?”



James DiGeorgia, Editor

“Oil is down over 25% from its prices last summer, and bearish analysts are cackling with glee. But oil won’t stay low for long. Here’s why!”

- **The GEA portfolio: up by over 21 percent in 2006!**
- **Russia cuts off Europe’s oil supply**
- **Multiple wars brewing in the Middle East—including a planned nuclear attack**

As you know, here in *GEA* I’ve pointed out all the factors behind oil’s record-setting prices over the last couple of years. I’ve also explained that long-term, prices will go up even further.

But prices have come down quite a bit in the last couple of months. There’s lots of optimism in the markets right now. Optimism that is, I believe, sheer fantasy.

Actually, none of this surprises me. My predictions in this newsletter are for the long term. (For

short-term price analysis and recommendations, read my email Updates.)

And over the long-term, big swings up and down are normal. Oil could fall by another \$10 per barrel and it wouldn’t change my outlook one bit.

If anything, we’d just buy more energy stocks! Which, by the way, have been very profitable for us even while oil has dropped...

***GEA* Portfolio Earns 21.12 Percent for 2006**

You might have seen the Special Report I issued early this month about our portfolio in 2006. If not, I’ll recap here just briefly.

Basically, our approach of “buy on weakness, hedge on strength” is working. We earned over 21 percent last year, despite oil falling for the last half of the year. That’s a spectacular performance, especially when compared to our peers. (For

example, Fidelity Select earned 14.2 percent, which is already a very respectable number. But we did almost one and a half times better than that.)

Anyway, I'm not trying to gloat. I'm just pointing out that our approach works well.

And that approach includes a very bullish outlook on future oil prices. Let's discuss some recent events that reinforce this outlook...

THE GOLD AND ENERGY ADVISOR

EDITORIAL STAFF

James DiGeorgia *Editor*
Spiros Psarris *Associate Editor*

PUBLISHING STAFF

Chuck Aultman *Subscriber Services*
Angela Leonard *Marketing Manager*

The **GOLD AND ENERGY ADVISOR** is a newsletter dedicated to educating investors about the investment opportunities in precious metals and energy. Unless otherwise stated, all charts, graphs, forecasts and indices published in the **GOLD AND ENERGY ADVISOR** are developed by the employees and independent consultants employed by The Silver & Gold Report, LLC. The accuracy of the data used is deemed reliable but is not guaranteed. There's no assurance that the past performance of these, or any other forecasts or recommendations in the newsletter, will be repeated in the future. The publisher, editor, and staff of this publication may hold positions in the securities, bullion, and rare coins discussed or recommended in this issue. The publisher, editor and staff are not registered investment advisors and do not purport to offer personalized investment related advice; the publisher, editor and staff do not determine the suitability of the advice and recommendations contained herein for any subscriber. Each person must separately determine whether such advice and recommendations are suitable and whether they fit within such person's goals and portfolio. **GOLD AND ENERGY ADVISOR** is affiliated with **Finest Known**, a dealer in rare coins and bullion. Mining companies, oil & energy exploration and/or oil & energy service companies mentioned or recommended in **GOLD AND ENERGY ADVISOR** may have paid or may in the future pay the publisher a promotional fee.

The **GOLD & ENERGY ADVISOR** is published 12 times a year by The Silver & Gold Report, LLC, 925 South Federal Highway, Suite 500, Boca Raton, Florida 33432 (800-819-8693 or 561-750-2030). Subscription rates: Single issue, \$19. One year (12 issues), \$189. Two years (24 issues), \$279.

© 2007 The Silver & Gold Report, LLC. All rights are reserved. Permission to reprint materials from the **ADVISOR** is expressly prohibited without the prior written consent of the publisher.

Russia Cuts Off Europe's Oil Supply

An escalating trade war between Russia and one of its socialist toadies resulted in Russia cutting off Europe's oil supply for several days.

Just a few weeks ago, the little rump country of Belarus (run by dictator Alexander Lukashenko) was Russia's closest ally. Then Gazprom, the Russian state-owned energy monopoly, decided to show that even Russia's friends could be stabbed in the back whenever Russian dictator Vladimir Putin feels like it.

In December, Russia abruptly threatened to turn off Belarus' natural gas supply unless it agreed to the following:

- a doubling of the gas price, starting January 1
- an extra duty to be charged on oil
- a forced sale of 50% ownership in Beltransgaz, Belarus' gas-pipeline monopoly.

The government in Minsk initially resisted this blackmail, and Europe held its breath. If Russia turned off Belarus' pipeline, Europe would lose one-fifth of its gas. You'll remember this is no idle threat: last year, in one of the coldest winters recorded, Russia cut Europe's gas supplies by one-third thanks to a price dispute with Ukraine.

But, at almost the last minute (literally), Minsk signed the agreement. Europeans were relieved.

However, their relief didn't last long. Minsk said that in return, it would charge a tax on oil that Moscow sends through Belarus' pipeline to others.

But Belarus should have known that Putin does *not* accept any insubordination from his neighbors. When Minsk announced the tax, Moscow immediately turned off the oil flow.

That oil—1.2 million barrels per day—goes to Europe. It provides 96 percent of Poland's oil, almost a quarter of Germany's supply, and some for other countries too (Ukraine, Hungary, Slovakia, and the Czech Republic).

After several days of no oil, Minsk caved in under the pressure from Europe, and meekly agreed to obey Russia again. After that, the oil flow was restored.

Some people think I've been too concerned with Russia lately. But this whole incident just proves my point. Putin is completely out of control.

He cut energy supplies to millions of people because of a minor tax dispute with a little pipeline

of a nation on his borders. His victims weren't even involved in the dispute, but their oil supply was slashed anyway. What makes people think Putin will show any restraint when there's a bigger issue at stake?

Obviously, he won't. His country produces more than one-tenth the entire world's oil supply, and owns the largest natural gas reserves. And time and again, he's shown himself willing to hold entire countries hostage over it. Even for minor disputes that they have no part in.

German Chancellor Angela Merkel is now calling urgently for energy diversification within Europe. But it's far too late for that. Switching to alternative energies will take years, and Russia is a problem right now.

Some suggest that Europe should look to other suppliers for its oil. But this wouldn't help at all. The oil markets are international now.

When Putin turns off the spigots to Europe, or any other customer, it doesn't really matter that the customers can buy from other suppliers instead. The oil market has no spare capacity—almost 100% of production is consumed. If Putin takes a significant amount of oil off the market, prices will skyrocket instantly around the world.

This will impact everybody—including us. Even though we buy little if any oil directly from Russia, he can hold us hostage to his whims too.

He hasn't done so—yet. But that doesn't mean we should ignore this threat. Someday we'll realize that our economy is hostage to the whims of a capricious dictator on the other side of the world. On that day, the oil markets will be permanently transformed.

Of course, that's assuming they aren't transformed already by events elsewhere...

Wars in the Middle East: Which One Will Break Out First?

Internationally, the American public's attention is mostly focused on Iraq—for obvious reasons.

Unfortunately, the growing disaster in Iraq is only one of several wars looming in that part of the world. There are multiple conflicts simmering there, right smack in the middle of most of the world's oil.

We'll start with the one that's on the news every night: Iraq.

The “Nightmare Scenario” is Looming

Unfortunately, the worst possible outcome of the mess in Iraq is looking more likely every day.

Our hoped-for outcome, a peaceful democracy, was never actually possible. The Sunnis and Shias have warred with each other for over 1,300 years—it was sheer fantasy to think that a local election or two could erase a millennium of mutual hatred and bloodshed.

Mark Bowden, author of *Blackhawk Down* (about our disastrous experience as ‘peacekeepers’ in Somalia), made some interesting comments recently about Iraq in a *Wall Street Journal* editorial. He said this:

“We Americans consistently underestimate the deep hatreds that divide people. Our political system is designed to wrestle peacefully with the divisions of race, class,

So far, most Americans are ignoring the growing Russian threat. But Europeans are not. And not only because Putin keeps plunging their continent into cold and darkness.

Royal Dutch Shell, the European-American oil giant, has spent billions developing the massive Sakhalin 2 project, on the Russian Pacific coast. When this project is finished, it will be the largest integrated gas and oil field in the world. And despite the enormous (\$22 billion) costs, Shell was excited to be part of it—until Putin stole it from them.

Accusing Shell of breaking “environmental laws,” Russia has now forced Shell and its Japanese partners to sell a majority share in the project to Gazprom. (Pitifully, the Shell executives were “relieved” that they were allowed to retain as much of the project as they did.)

Although the U.S. is still asleep in the face of the Russian threat, Europe is finally waking up. The European Bank for Reconstruction and Development (EBRD) said it will probably not go through with a planned \$300 million loan for the Sakhalin project. As a spokesman explained, the EBRD “doesn't invest in projects that have just been nationalized.” Which is a nice way of saying, “We don't do business with thieves.”

At least somebody is finally paying attention.

**Latest prices as GEA goes to press—
January 24, 2007**

Comex spot contract: silver \$13.22, gold \$648
Nymex spot platinum: \$1,166, palladium \$346
Nymex Light Sweet Crude Oil \$54.40

		Dealer will buy at this price	Dealer will sell at this price
Silver coins			
100 1 oz. silver American Eagles		\$1,350	\$1,475
100 1 oz. common rounds		\$1,200	\$1,475
\$1,000 face value US pre-1965 coin bag (circulated)		\$8,400	\$9,500
\$1,000 face value US circulated silver dollar bag (VG or better)		\$11,500	\$14,750
US Morgan silver dollars	PCGS MS64	\$45	\$65
	PCGS MS65	\$110	\$140
	PCGS MS66	\$280	\$375
Platinum coins			
U.S. Platinum Eagle:	1 oz.	\$1,100	\$1,295
	1/2 oz.	\$575	\$650
	1/4 oz.	\$285	\$320
	1/10 oz.	\$110	\$160
Gold coins			
Australian Kangaroo		\$620	\$687
British sovereign (Kings) (Elizabeths)		\$120	\$170
Canadian Maple Leaf		\$620	\$687
Credit Suisse 1 oz. gold bar		\$620	\$687
Mexican 50 peso Centenario		\$620	\$800
South African Krugerrand		\$620	\$687
US Gold Eagle:	1 oz.	\$640	\$695
	1/2 oz.	\$310	\$370
	1/4 oz.	\$130	\$200
	1/10 oz.	\$60	\$75
US \$20 double eagle:			
Liberty	Raw MS60	\$600	\$795
	NGC MS63	\$800	\$1,200
	NGC MS64	\$1,800	\$1,950
	NGC MS65	\$4,150	\$5,950
Saint Gaudens	Raw MS60	\$625	\$775
	NGC MS63	\$725	\$875
	NGC MS64	\$845	\$950
	NGC MS65	\$1,200	\$1,395

Buy Gold Now
Prices provided by Finest Known
(866) 697-GOLD (4653)

ethnicity, religion...When we look out at the world, we tend to see millions longing to get past the blood feuds, to be, in short, more like us...No matter how many times history slaps us in the face, the dream persists.

“Nine years ago, in the epilogue to *Black Hawk Down*, I quoted a State Department official...as follows: “The idea used to be that terrible countries were terrible because good, decent, innocent people were being oppressed by evil, thuggish leaders. Somalia changed that. Here you have a country where just about everybody is caught up in the fighting. You stop an old lady on the street and ask her if she wants peace, and she will say, ‘Yes, of course. I pray for it daily.’ All the things you would expect her to say. Then ask her if she would be willing for her clan to share power with another to have that peace, and she’ll say, ‘With those murderers and thieves? I’d die first.’ People in those countries...don’t want peace. They want victory. They want power. Men, women, old, and young...People in these places bear much of the responsibility for things being the way they are. The hatred and killing continues because they want it to. Or because they don’t want peace enough to stop it.”

Iraq isn’t the first country where the locals are all trying to kill each other. Nor will it be the last. But this is the first time a local civil war is threatening the entire world’s oil supplies.

Arab leaders are now warning the U.S. about the “nightmare scenario” that is forming—where the entire Middle East is pulled into the war. Iran is already involved, and has been enthusiastically supporting the Shia side in Iraq. Cheering on the Iranians are their Shia brethren in Syria, and the Shia Hezbollah murderers in Lebanon.

On the other side are the Sunnis. This group includes Saudi Arabia, Egypt, Qatar, the United Arab Emirates, and Jordan. They’re horrified by the violence against their Sunni brethren in Iraq, who are being hunted down and killed by roving bands of Shia militias.

So far, the Sunni countries have restrained themselves from openly interfering. (There are reports that Saudi Arabia has been funding and arming the Sunnis, though.) But that restraint will evaporate as soon as American soldiers leave. Which might happen very soon, if the new Democrats in Congress have their way.

Iraq is almost in a full-blown civil war, but not quite. The Sunnis in particular can’t decide who

they hate more: Shias or Americans. But once our soldiers pull out, the entire country promises to break out into open battle.

Arab leaders are already making plans for that day. According to both the *Wall Street Journal* and the UK *Telegraph*, it's looking like Iraq will be invaded from several directions at once.

To the west, Jordan is being overwhelmed with refugees, fleeing the ethnic cleansing that's underway in central Iraq. The Jordanian capital of Amman is already bursting with over 900,000 Iraqis, some 15 percent of the city's population. But some of these "refugees" are actually leaders of the guerrilla insurgency back in Iraq, commanding it from afar. And Jordan is worried about bands of Shia assassins and terrorists infiltrating Amman to take out the Sunni leaders.

So Jordan is planning to invade from the west and create a buffer zone, as far as Rutbah (80 miles into Iraq). At the same time, Saudi Arabia is considering an offensive from the south, using Egyptian tanks and artillery in a military thrust to rescue the besieged Sunni population in central Iraq.

Meanwhile, Turkey is making plans to sweep in from the north. They claim they want to protect the Iraqi Turkmen population. In reality, they want to suppress the Kurdish population, whose brethren in Turkey have been oppressed and fighting for independence for centuries. The Iraqi Kurds are now practically self-governing, an example which Turkey finds very threatening since it's encouraging the Kurds in Turkey to fight harder.

Of course, these multiple invasions would make a dandy excuse for Iran to make a thrust from the east. Many of Iraq's oilfields are within easy reach of the Iranians, and as a bonus the local populations are mostly Shia. Iran has the most to gain if Iraq splits up into multiple hostile regions, since the Shias would get most of the oil. Plus, the current Iraqi government is already little more than an Iranian stooge anyway, at least in the minds of many Iraqis.

For the last few decades, Iraq has been a secular buffer state between fanatic Muslim regimes: Shia Iran to the east, and Sunni states to the west and south. That's all changing now. Iraq is threatening to change from a buffer into a vast no-man's-land, where hostile armies battle for control.

**As the U.K.'s *Sunday Times* put it,
"Saudi Arabia and Iran are
preparing to do battle
over the corpse of Iraq."**

Other wars are brewing in the Middle East besides these. The rival Palestinian groups of Hamas and Fatah are shooting at each other. Lebanon is splitting down the middle, with Shia Muslims on one side and a coalition of Sunnis and Druze on the other. Hezbollah is re-arming for another war against Israel. And Syria continues its efforts to re-establish supremacy over Lebanon, including the recent assassination of former Lebanese Prime Minister Rafik Hariri. With the U.S. distracted in Iraq, and Israel pre-occupied with Iran, Syrian President Assad might re-invade his neighbor.

Obviously, such a war would make oil prices explode upwards. \$100, \$150, maybe even \$200 per barrel.

And, as I mentioned, this is only one of several wars threatening to break out in the Middle East. Another one took an ominous turn this month....

Israel is planning a nuclear strike on Iran

The UK's *Times* and the *Jerusalem Post* just ran stories quoting senior Israeli military officials, who are planning for a tactical nuclear strike on Iran.

Iranian President Ahmadinejad has continued shrieking about "wiping Israel off the map," and sponsoring conferences denying the Holocaust. He's also said he's expecting the Mahdi any day now (the Islamic Messiah), who will be accompanied by a world apocalypse that ushers in his return.

No wonder then that Israel is worried that this nutcase is developing nuclear weapons. So Israel will ensure that he doesn't get them.

This whole situation has been simmering for years. The Iranians have been openly racing to enrich uranium for nuclear bombs, despite warnings and sanctions from the United Nations not to do so. The good news is that they've suffered a series of setbacks in the last year (including a string of plane crashes that killed a bunch of senior military officials).

Nevertheless, the race continues. Once they get enough uranium, the race is over. It will take a while to make bombs from it, but there will be no way to stop them at that point. The time to stop them is before they finish enriching the uranium.

How long will that be? According to an article in the *Jerusalem Post*, nuclear experts say they'll need

3,000 centrifuges. They had planned to have these by late 2006, but are now on track to have them this year. (They have about 320 already.) Then it will take a few months to actually enrich the uranium to the required purity.

So unless they're stopped sometime in 2007 or early 2008, it will be too late. That's why Israel is making plans for a strike very soon.

There are three primary targets in Iran:

- Natanz, which has the primary facilities for uranium enrichment
- The heavy water plant at Arak, which can produce plutonium

Portfolio Updates

In Update 287, we issued a recommendation to buy Devon Energy (DVN) at the market (\$64).

We also made a recommendation for people willing to consider more risk. On Diamond Offshore (DO), we bought two contracts of calls (March \$65, symbol DOCM) for \$12.50. On the Oil Service Sector Index (OIH), we sold short the Feb. \$125 puts (OIHNE) for \$3.10.

In Update 288, we gave instructions for those subscribers who sold options against NE and APA ONLY. We removed our hedges by buying to close the Jan. \$75 NE calls (NEAO). We also bought to close the APA Jan. \$65 calls (APAAM).

In Update 291, we added another oil driller as an aggressive short-term recommendation. We bought a deep in the money option on Global Santa Fe (GSF): two contracts of the April \$45 calls (GSFDI) for \$10.40.

In Update 293, we issued a recommendation on Suncor Energy (SU). We bought the June \$60 call (SUFL) for \$15.30. We also sold short the Feb. \$70 put (SUNN) for \$2.00.

In Update 295, we issued recommendations for subscribers who sold options against the Enscor International (ESV) and Talisman Energy (TLM) holdings. For ESV, we had sold the Jan. 55 calls (ESVAK) for \$2.10. We allowed them to expire and kept the premium. For TLM, we had sold the Jan. \$16.625 (TLMAQ) for \$1.05. We allowed them to expire and kept the premium.

In Update 296, we issued recommendations for subscribers who own Encore Acquisition (EAC) and Bill Barrett Corp. (BBG).

On EAC, we sold the March \$25 calls (EACCE) for \$.90. On BBG, we sold the Feb. \$30 calls (BBGBF) for \$.70.

- A uranium conversion facility near Isfahan, which is being used for storage for gas used in the enrichment process.

The problem with all this is that the Iranians aren't stupid. These facilities are heavily fortified: some are underneath 70 feet of concrete and rock.

That's why Israel is considering using tactical nukes. Conventional laser-guided bombs would be used to blow away some of the external cover, ideally making "tunnels" down to the most heavily reinforced facilities. Then small nukes, each about one-fifteenth the size of the Hiroshima bomb, would take out the targets.

Israeli pilots are already training for this mission, including a recent 2,000 mile trip to Gibraltar (about the same flight time as the Iranian targets). F-15 and F-16 fighters would be used, with in-flight refueling making it possible to get there and back again.

So why are Israeli officials talking about this operation so openly?

For several reasons. Number one, Israel hopes to turn world opinion against the Iranians, so international pressure could stop the nuke program peacefully. Another possibility is that the Iranians would be intimidated into shutting down the program themselves. Both of these are extremely unlikely, but the Israelis have to try.

Also, by announcing their plans, Israel hopes the United States will get involved more actively in shutting down the Iranian program, and make this whole attack unnecessary. If nothing else, the publicity surrounding their plans will bring the Iranian situation to the world's attention.

Even if nobody else is paying attention, Washington is. The Pentagon has sent another U.S. aircraft carrier battle group to the Persian Gulf. The *USS Dwight D. Eisenhower* battle group is already there, and now the *USS John C. Stennis* battle group will join it.

Are we preparing for an action against Iran?

If so, it will be the U.S. and Israel attacking Iran together, probably using conventional weapons. If not, Israel will do it alone, with tactical nukes. Either way, the Iranians will retaliate against Israel for sure, and possibly us as well.

This might start a broader Middle East war. Even if it doesn't, several of the more shaky governments in the Middle East will be destabilized by furious mobs of radical Muslims, demanding vengeance against the U.S. and Israel.

Unless the U.N. somehow gets Iran to shut down its nuke program—which it's been impotent in doing so far—I can't see a good way out of this. Even in the best-case scenario (a successful strike with

no retaliation), radical Muslims will be empowered in the Middle East, destabilizing oil supplies even more than they are now. The worst-case scenario adds a plummeting dollar to the equation, making gold a mandatory part of your portfolio.

Then there's another deteriorating situation that nobody's talking about...

U.S. Loses the War Against Al-Qaeda

A little while ago, Pakistan signed a little-noticed peace treaty with tribal leaders in its Waziristan region.

Without even knowing what it said, this should have raised some eyebrows. How does a government sign a treaty with its own people? This is like the mayor of Peoria signing a peace treaty with President Bush. As if Peoria was an independent country that was at war with the United States.

But the contents of the treaty were even more interesting. Pakistan agreed to withdraw its military forces from the region, in exchange for promises from tribal leaders that they would be good boys and girls from then on.

Question: why were the government soldiers fighting the locals? Answer: the locals support the Taliban from Afghanistan, who are using Waziristan as a base from which to attack American soldiers across the border.

Let's review why U.S. soldiers went into Afghanistan in the first place. The Taliban are radical Sunni Muslims, who sheltered and supported Osama bin Laden as he attacked America. This included not only the World Trade Center (twice), but also various American targets around the world.

After 9/11, we invaded Afghanistan and quickly toppled the Taliban—at least officially. What really happened is that the Taliban—and al Qaeda—just relocated across the border into Pakistan. That's why the fighting is still going on today. The Taliban launch attacks across the border, then retreat quickly back into Pakistan.

Moving into Pakistan was a brilliant move from the Taliban. First of all, they knew they'd get a warm reception from the locals, who not only share their religion (Sunni Islam) but their ethnicity (Pashtun).

But that's not the only reason the Taliban retreated there. They also knew that if they went into Pakistan, American soldiers couldn't follow.

The U.S. is afraid to invade Pakistan to go after the Taliban and al Qaeda, and with good reason.

Pakistan has nuclear weapons. These are not we're-still-working-on-them nukes, these are we've-tested-them-and-have-them-on-our-missiles nukes.

The problem here is that Pakistan is not a stable place. Despite being a military dictator, Pakistani President Musharraf still barely controls the country. The Pashtun region in the north considers itself independent, while the Balochistan region in the south (the largest province in the country) openly rebelled and fought against the central government for three years in the 1970s. To the east is the long-disputed region of Kashmir, over which Pakistan and India have fought several wars. And to the west is Afghanistan.

President Musharraf professes friendship with America. But Pakistan is an unstable Muslim country. If U.S. soldiers were to enter Pakistan to root out al Qaeda (even if it was without Musharraf's permission), he would be overthrown.

And then Pakistan, a country with at least 30 nuclear weapons, would be taken over by Muslim extremists.

The idea is too frightening to contemplate. So the U.S. can't enter Pakistan to root out and exterminate Osama bin Laden and his associated vermin hiding in the hills. We've had to allow the Pakistani Army to do it for us.

Too bad then that after five years of fighting, the Pakistani Army just *lost*.

The *New York Times* described the recent peace treaty as a "face-saving retreat" for the Pakistanis. Under the treaty, their Army has exited the northern regions, leaving the locals (and the Taliban, and al Qaeda) in peace. In return, local tribal leaders have promised to not engage in terrorist activities.

But so what? The locals weren't the ones doing the terrorist activities in the first place. That's being done by the people they're sheltering—whom the treaty doesn't affect at all.

Where then does that leave al Qaeda and Osama bin Laden? Sitting comfortably in a place where they can recruit, train, and launch more suicide terrorists against us. This is just how it was before 9/11—except that this time, we can't touch them.

The entire reason we invaded Afghanistan was to stop al Qaeda. Now we're stuck in that abysmal place, fighting guerrillas who appear and disappear at will. Meanwhile, with the Taliban gone, Afghani farmers have enthusiastically returned to growing the largest crop of poppies in the world, producing

opium, heroin, and other narcotics that plague American cities. And al Qaeda has become, in some respects, better off than before.

With the huge mess in Iraq, many Americans pay little attention to al Qaeda anymore. After all, they haven't attacked us (successfully) in our country for five years now. But that doesn't mean the threat is gone.

We've still been fighting al Qaeda—the difference is that it's been in Iraq (they're behind the Sunni insurgency in the western provinces). Now that we're preparing to pull our soldiers out, al Qaeda's attention will return to the American homeland.

And to other places too...

Top U.S. General Says: Our Military Needs to Protect Our Oil from Terrorists

Four-star general Charles Wald recently retired from our Air Force. He's held some of the top jobs in the military, including his final post as deputy commander of U.S. forces in Europe, Central Asia, and Africa.

Now he's raising the alarm over our oil supplies.

While in his last military position, General Wald traveled extensively through the regions under his command. He was deeply disturbed by what he found.

Because of all the instability in the Middle East, Gen. Wald realized we need to secure oil from other parts of the world. Outside of the Middle East, the areas with the biggest potential oil production are the Caspian Sea and West Africa. So that's where the General went.

In the Caspian Sea, he found the problem is twofold. Much of the production takes place offshore in the Sea itself, and the facilities are vulnerable to attack. Over the next couple of years, Wald tried to persuade Kazakhstan and Azerbaijan to build a "Caspian Guard" to protect their oil supplies from possible terrorist attacks. (This effort failed.)

The second problem is that even once the oil is produced, it then has to be transported somehow to ocean ports for loading onto tankers. Wald was briefed on the \$3.9 billion pipeline being built for this purpose from the Caspian to the Mediterranean.

The things he learned alarmed him. Craig Cartier, a civilian analyst for the European Command, described a motorcycle trip he took along the pipeline's route: all 1,100 miles of it, through

the mountains and valleys of Azerbaijan, Georgia and Turkey.

General Wald was impressed with how vulnerable the pipeline is to sabotage, and how likely it is that sabotage will take place. (Georgia especially is infested with militant terrorists.)

Wald also set up simulations of various events. Sabotage along the Caspian pipeline would be devastating for Europe's energy supply, and by extension global oil prices. In the simulations, even problems in a Russian natural-gas pipeline resulted in power failures across Britain.

So the Caspian Sea turned out to be very disturbing. Unfortunately, West Africa wasn't any better.

Much of the oil potential in this region is offshore, especially around the island nation of São Tomé and Príncipe. Wald optimistically hoped to arrange for security for the oil facilities that Western countries want to build there. Instead, he found that this country's "coast guard" has no oceangoing vessels, and that its "army" is so poor and underequipped that its cooks prepare food over open fires. Instead of forging joint defense agreements with the locals, Wald had to send his troops to help rebuild a school and do other humanitarian work.

Now that he's left the military, General Wald is trying to wake people up about our oil situation. Around the world, there's a long list of easy targets for terrorists. These are places where a single attack could knock out a substantial portion of energy supplies, making prices leap up and damaging our economy almost effortlessly. And since the locals are inadequate to protect these targets, we have to do it ourselves.

But, as he admits, "It's really difficult to make people aware we have a problem."

Truth be told, I think his efforts are fruitless. Even if people would listen to him, our military is stretched too thin to do anything about it anyway. As Robert Gates, our new Secretary of Defense, fretted during a terrorist-attack simulation, even our own national infrastructure is "too big to protect as a whole." We might as well forget about protecting the infrastructure in the rest of the world.

As I write this, oil prices have taken a real hit lately, thanks to misguided optimism in the stock market and other places. This optimism will evaporate once any of the problems I've described asserts itself.

Both oil and gold will hit new highs—prices that will blast through one ceiling after another. Prices that will set a series of new records.

Prices that will surprise everybody except us!