

“Ouch! Gas Prices Have Hit a New Record—and the Summer Driving Season is Just Beginning!”

“This just confirms what I’ve been telling you in *GEA*. Forget the soothing platitudes you’re hearing from the mainstream media. They have it all wrong.

“We’re in a secular oil bull, and there’s still lots of room to the upside from here!”



James DiGeorgia, Editor

- **Bad news from the biggest oil reserves outside of the Middle East**
- **Iran: planning to target European cities?**
- **Gold mining stocks: are they better or worse than the metal itself?**

we have a quiet hurricane season—more specifically, if the Gulf of Mexico doesn’t get clobbered again—that would relieve a little bit of the upwards pressure on oil’s price.

But I don’t think that would matter much. Overall, most of the news this month is very bullish for oil.

We’ll start with the largest oil deposits outside of Saudi Arabia...

Bad News for Canadian Oil Sands

The oil sands up in Alberta contain billions of barrels of oil. It’s a tremendous reserve, and under other circumstances, it could have supplied much of the world’s oil for years to come.

Unfortunately, this oil is extremely difficult to extract. In its native state, it’s a tarry gunk, distributed throughout a huge deposit of sand and earth. Hundreds of feet of overburden have to be removed to access even the shallowest deposits, and then the sands themselves have to be mined. (This process is even harder in the winter, when the ground freezes.) Then the oil has to be separated from the

As the summer driving season approaches, everybody wants to know: what will happen to gas prices? Filling up the car is a painful experience for many people nowadays. Will we get relief?

Well, if relief comes, it will be short-lived. Oil doesn’t look like it’s coming down any time soon.

Yes, the price might oscillate a bit as the summer progresses. For example, there’s probably some “hurricane insurance” built into prices at the moment. If

sand with boiling water. Deeper deposits can be extracted by drilling wells, injecting steam into them to soften the tar, and pumping it out.

Regardless of the method used, oil from the sands is expensive and difficult to obtain. Nevertheless, many energy analysts have hoped the oil sands would solve our energy woes. Too bad these hopes were just dealt a huge blow—by none other than the Canadian government itself.

Canada just announced a new environmental

policy. To reduce global warming, the government has decided to cut back on greenhouse gas emissions by 20 percent.

This has left the Canadian energy industry reeling. The oil sands were already a target for environmentalists, since the separation process consumes huge amounts of water (producing vast, poisonous lakes that are deadly to wildlife). This new policy opens up a new front in the war against the industry.

From a greenhouse-gas perspective, conventional oil production is a bad procedure. For each barrel of oil produced, 57 pounds of carbon dioxide are released into the atmosphere. But petroleum from oil sands is far, far worse. Each barrel of oil-sands crude is responsible for releasing 188.5 pounds of carbon dioxide—over three times the amount from conventional oil.

Thanks to the government's announcement, the oil sands don't look so promising anymore. We need more oil, but now it will be politically difficult to expand production. In fact, production might even decrease instead. (This would be an easy way for industry to get 'credits' against other emissions.)

It's too early to tell how this will all work out. At this point, though, expanded oil-sands production just took a serious blow.

Truth be told, people were too optimistic about the oil sands anyway. Current production is a bit over one million barrels per day (bpd). Even before the announcement, projected increases were only for an additional 2.5 million bpd by 2015. World demand is projected to increase by more than that by 2009—which is six years earlier. So the sands wouldn't have had a huge impact on oil supply and demand.

Outside of Saudi Arabia, the northern oil sands are the biggest deposits in the world. They would have helped our supply crunch a little—a *very* little—but even that is doubtful now.

The same is true for the second-most promising area of the world outside of the Middle East...

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Trouble in the Orinoco

The Orinoco region in Venezuela is a lot like Alberta in Canada. The petroleum deposits are similar—thick, tarry sludges that can't be extracted with conventional methods.

For the most part, the Venezuelan oil industry was built by Western companies. As I told you in last month's issue, the Venezuelan government has now stolen billions of dollars' worth of infrastructure and property rights from those companies. Specifically, Western companies invested about \$17 billion into

the Orinoco fields. On the first of this month, they were forced to turn over majority ownership to the Venezuelan government.

If you're not a stockholder in one of these companies (Exxon Mobil, ConocoPhillips, Chevron, Total, and BP), you might not think you were affected by this. But this is untrue. We're *all* affected by the unfolding drama surrounding Venezuela's blustering dictator, Hugo Chávez.

Chávez has openly said he wants to divert his oil production away from the US and towards other countries. These aren't idle words, either. Chávez is shipping more and more oil to China now, among other places. Oil exports to the US have fallen by 8.2 percent in the last year.

In one sense, this is irrelevant. The oil market is global, so this won't affect the price we pay. We'll just buy our oil from someone else, at pretty much the same price.

In another sense, though, this does have repercussions. We'll become more dependent on oil from the Middle East. Much of this oil passes through the Strait of Hormuz, which is vulnerable to intervention from Iran. And Middle Eastern oil overall depends on political stability in the region, which is always a bad bet.

As I've said before, though, this isn't the biggest problem Chávez is causing. His greatest threat to us is his own incompetence. Last month I mentioned how oil production has already plummeted since he came to power, and how it's about to fall again thanks to the Orinoco takeover. This month, he's confirming for us that this is what's going to happen.

Now that Western companies have been pushed out, Chávez needs to replace their workers and expertise. This month, he's getting ready to sign contracts with companies from these countries:

- Vietnam
- Brazil
- Iran
- China
- Belarus

Do you see any countries here with significant oil expertise? I don't. About the only one with a sizable industry is Iran—and the Iranians didn't even build their infrastructure themselves. They stole it from the British companies who did build it, and the industry has been falling apart ever since. (Despite being the fourth biggest oil exporter in the world, the Iranians have to import over 40 percent of their gasoline. Their refineries are breaking down, and they don't know how to fix them.)

The Orinoco region was one of the few large deposits in the world with any potential. But it's a tremendous technical challenge, which is why it hasn't been fully developed yet. Now Chávez has

chased out the few companies in the world who could actually develop it. Instead, he's hiring people from places like Brazil and Belarus.

War in the Middle East Looking More Likely

“Any mistake, any provocation, may lead to a war. We didn't see the situation this way even a year ago.” That's according to Eyal Zisser, a strategic analyst in Israel.

Preparations—and provocations—are everywhere around Israel. The Palestinians are still amassing weapons in the Gaza strip. The Hamas terror group fired 21 rockets and 68 mortar shells into Israel during its recent independence day celebrations. Syria continues its apparent preparations to attack the Golan Heights; President Bashar Assad recently warned, “We are working daily... We are always preparing ourselves. Israel is a fierce enemy.”

Last year's war in Lebanon took a real toll on Israel. Last month, a widely-awaited public report on the war was released. It blamed the top Israeli leadership for the (many) failures that occurred—mostly because the government acted too timidly. Most importantly, the Hezbollah terrorists in Lebanon were allowed to escape, and then re-arm. The government is determined not to make this mistake again.

As the *Wall Street Journal* noted, “Because of the Lebanon experience, Israeli officials acknowledge, the nation's leaders are likely to react to future incidents more quickly and with greater force, avoiding what officials here call “tit-for-tat” campaigns.”

Meanwhile, Iraq threatens to ignite a broader war. According to Turkey's top general, a Turkish military attack into Iraq is becoming “necessary” and “useful.” The *Economist* quoted a western observer who said the Turkish military is “itching” to invade northern Iraq, and attack the Kurds there.

If they do, we might see American troops being sent to defend the Kurds. This would have disastrous repercussions, as Turkish society is currently caught up in a struggle between Islamic Turks and secular pro-Western Turks. If Turks and Americans start shooting at each other in Iraq, public opinion would turn against the secular government. The entire country would unite against the West, and the Islamists would win.

Turkey is a vital ally in the war against terror and radical Islam. It would be a disaster if the Muslims took it over.

Latest prices as GEA goes to press— May 17, 2007

Comex spot contract: silver \$12.73, gold \$654
 Nymex spot platinum: \$1,310, palladium \$357
 Nymex Light Sweet Crude Oil \$63.18

		Dealer will buy at this price	Dealer will sell at this price
Silver coins			
100 1 oz. silver American Eagles		\$1,350	\$1,450
100 1 oz. common rounds		\$1,273	\$1,373
\$1,000 face value US pre-1965 coin bag (circulated)		\$9,000	\$9,750
\$1,000 face value US circulated silver dollar bag (VG or better)		\$12,000	\$13,000
US Morgan silver dollars	PCGS MS64	\$43	\$47
	PCGS MS65	\$114	\$122
	PCGS MS66	\$260	\$330
Platinum coins			
U.S. Platinum Eagle:	1 oz.	\$1,310	\$1,350
	1/2 oz.	\$655	\$675
	1/4 oz.	\$325	\$340
	1/10 oz.	\$140	\$150
Gold coins			
Australian Kangaroo		\$660	\$690
British sovereign (Kings) (Elizabeths)		\$150	\$170
Canadian Maple Leaf		\$650	\$685
Credit Suisse 1 oz. gold bar		\$655	\$690
Mexican 50 peso Centenario		\$790	\$820
South African Krugerrand		\$650	\$670
US Gold Eagle:	1 oz.	\$662	\$692
	1/2 oz.	\$331	\$360
	1/4 oz.	\$165	\$180
	1/10 oz.	\$66	\$76
US \$20 double eagle:			
Liberty	Raw MS60	\$657	\$687
	NGC MS63	\$875	\$925
	NGC MS64	\$1,315	\$1,450
	NGC MS65	\$3,580	\$3,900
Saint Gaudens	Raw MS60	\$665	\$705
	NGC MS63	\$720	\$780
	NGC MS64	\$845	\$895
	NGC MS65	\$1,250	\$1,350

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I predict Venezuelan oil production will continue to slide over the coming years.

Incidentally, Venezuela isn't the only oil country wanting to reduce its exports to the US. There's also the biggest oil producer in the world...

Saudi Arabia

There was an interesting meeting in Riyadh (the Saudi capital) a month or so ago. It was called "The Asian Ministerial Energy Roundtable," and was attended by ministers from 16 countries, including Saudi Arabia, China, South Korea, Japan, and India.

In a nutshell, this is part of an ongoing effort to intertwine the Middle East with eastern Asia. In fact, the group agreed to refer to the Persian Gulf area as "West Asia."

Historically, the Saudis have looked upon America as their best customer, and have been unwilling (for the most part) to offend us. But this is changing fast. Already, the Saudis send 4.5 million bpd—some 60 percent of their exports—to the East instead of the West. Along with other Middle Eastern oil countries, they'd rather do business with the Asians than with us.

Again, this won't necessarily affect prices in the short term. But long term, this is very bad news for us. Our "special friendship" with the Saudis has been the foundation of American policy in the Middle East for over 50 years. Now there's an overall hardening of attitude towards us, all over the region. If you remember the OPEC oil embargoes of the 1970s, as I do, you'll know how serious this is.

The Terrorists Ruling Iran

The *Wall Street Journal* recently reported on Mansour Osanloo, the leader of 17,000 Iranian bus workers. He was arrested and had a piece of his tongue cut out for "activities against the state." What was his crime? He had asked that bus workers be given an allowance for proper footwear and uniforms.

The people who did this to him are the same ones who will have nukes soon.

WSJ commentator Robert Joseph recently made some interesting observations about Iranian President Mahmoud Ahmadinejad. A few months ago, Iran took 15 British sailors and marines hostages, in a successful effort to embarrass Britain. Also, you might remember that Ahmadinejad was a leader of the "students" that attacked the American embassy in 1979. He and his criminal friends took and held American hostages for 444 days.

Joseph noted that the Iranian President has probably learned that hostage-taking is a fun and profitable activity. After all, every time Ahmadinejad has taken hostages, he's gotten spectacular results.

In eight years, Iran will have missiles that could reach European cities. The nukes for the tops of the missiles will probably be ready a lot sooner than that. Will Ahmadinejad use his same trick again, except on a much larger scale? It seems likely. As Joseph wrote, "We could wake up one morning to find that Iran is holding Berlin, Paris, or London hostage to whatever its demands are then."

Incidentally, eight years is only an estimate. It could happen a lot sooner. Remember how surprised we were, when North Korea tested its first Taepodong missile in 1998? Western intelligence estimates had said the Koreans were years away. Obviously, we underestimated them.

To counteract the Iranian threat, the US wants to put missile defenses into Europe. Unfortunately, Russia is fighting us on this, even though these defenses would be absolutely no threat to them.

This isn't surprising, though. It's consistent with Russian President Putin's overall behavior. After all, he's...

The New Russian Czar

Vladimir Putin is wildly popular in Russia. Since he came to power, Russia's per-capita GDP has quadrupled. Although poverty is still a problem, about 20 million people have been brought out of it since he rose to power.

Most of this prosperity had nothing to do with him. Putin had two things working in his favor. First of all, when the Russian economy imploded in 1998, the ruble went into the toilet. Afterwards, Russian manufacturers flourished. (Their products could finally compete with imports.)

Also, Russia is the world's second-largest oil producer. The raging bull market in oil has produced a windfall of oil profits, enabling Putin to spend lavishly on improving roads, utilities, and the like.

Nevertheless, Putin takes credit for it all anyway. He's used his popularity to systematically eliminate any opposition of any kind. The entire government is now his puppet. For example, last month, the Russian Supreme Court liquidated the Republican Party, one of the few political parties left to oppose Putin. (The court said the Republicans had too few members.) This came a few days after the Moscow prosecutor's office banned the Nationalist Bolshevik Party.

About the only party left to oppose Putin today is a ragtag bunch called Other Russia, led by former

Portfolio Update

In Update #341, we issued a recommendation to buy 100 shares of the United States Oil ETF (USO). We bought at about \$48.38.

world chess champion Garry Kasparov. This group is unlikely to go anywhere: it's made up of everything from liberal pro-Western democrats to hardline Bolshevik socialists. The only thing they all have in common is that they don't like Putin. With such a diverse group, they can't agree on any political platform, and are unlikely to succeed.

In reality, it's too late anyway. Putin already has the whole government under his personal control. Of the 447 deputies in the Duma (the Russian Parliament), only five are from parties not controlled by the Kremlin.

That makes the events of April 14th all the more shocking. In St. Petersburg, a few thousand Other Russia members gathered peacefully to advocate free elections. They were swarmed by 9,000 riot police, who clubbed them down and dragged them away. Another gathering in Moscow had similar results.

All this was done in full view of Western TV cameras. Obviously, Putin no longer cares about world opinion.

In fact, the opposite seems to be true. In a recent speech to the Duma, Putin thundered that other countries were trying to "directly interfere in our internal affairs." He also threatened to withdraw from a treaty that limits conventional weapons in Europe.

So who is this man who now controls the world's second-largest oil producer? We can glean some hints from author Elena Tregubova. She used to be a reporter for Russia's *Kommersant* newspaper, where she was assigned to the Kremlin. She got to know President Putin quite well, even dining with him privately once or twice.

In 2000, Tregubova was ordered to start submitting her articles to censors for approval. She refused, and was barred from reporting on the Kremlin anymore. Her response was to write a book, *Tales of a Kremlin Digger*, about Putin and her experiences with him. If her book is true, Putin is exactly what he appears to be: a cold, heartless tyrant.

Here's an example from Tregubova's book. A few weeks before Putin's election as President in 2000, he was in a hospital in Petrozavodsk. There he met a boy, who had been injured by a car while jaywalking. As the book said, "Instead of expressing sympathy to the small boy on crutches, Putin told him, 'From now on, you won't be breaking traffic rules anymore.'"

Incidentally, Tregubova has fled Russia in fear and asked Britain for political asylum. Right after her book came out, a bomb went off outside her Moscow apartment. She narrowly missed being added to the long list of reporters who have been rubbed out after reporting on the Russian government. (Another one happened just last month. A *Kommersant* reporter fell to his death out the window of his apartment building. Police are investigating it as a “forced suicide.”)

A few days ago, I was reading a Russian web publication called ‘eXile’. In a report about Tregubova, the author digressed a bit about Russia today:

“There once was a Homo Sovieticus, a human-

like creature very different from us. Now we have Homo Post-Sovieticus, Homo Putinus (“HP”) if you like, which is a human-like creature that also is, unfortunately, very different from us. What are the main differences?

“A westerner (“W”) thinks that one should work productively, and profit from one’s productive labor. HP thinks that one should profit from controlling, intimidating, or “screwing” someone else...

“There are productive and creative people in Russia; actually, there are such people in the millions, but the problem is that HPs are in power, and producers are their prey; forced to give up what they have cre-

Terror Update

Recent news items tell us terrorists haven’t given up their plans against America.

According to a report earlier this year, American Airlines Flight 63 (Paris to Miami) was apparently probed by terrorists. In the middle of the flight, several Middle Eastern men were roaming the airplane, especially the forward galley.

A flight officer, who had left the cockpit earlier for a break, tried to return forward. When the cockpit door opened, several of the men rushed him. He called out, “Lockdown!” and the crew inside the cockpit slammed the door shut. The men immediately scattered and returned to their seats. (The plane was met by the FBI in Miami, and the men were arrested and deported.)

Meanwhile, the *Journal of Homeland Security and Emergency Management* recently complained about cargo containers. Only 2 percent of cargo containers entering this country are ever inspected.

Apparently nothing has changed since 2004, when ABC News successfully shipped 15 pounds of depleted uranium into the Port of Los Angeles—*twice*. Both shipments went completely undetected.

Radiation detectors would have found the cargo immediately, but none were ever used. (Depleted uranium by itself is harmless, but it has the same signature as enriched uranium that’s been shielded.)

Apparently, it would be easy for terrorists to smuggle nuclear material into our country.

Of course, before they could bring it in, they’d have to get some first. But that doesn’t sound too hard either. The International Institute for Strategic Studies (IISS) in London just published a report on nuclear black markets. We already

knew that Abdul Qadeer Khan, the father of the Pakistani nuclear bomb, used to sell nuclear material and technology to anybody who’d pay for it. In fact, Western intelligence believes he sold uranium-enrichment technology to Iran, North Korea, and Libya.

Well, the IISS now says that Khan’s private nuclear network wasn’t the only one out there. Apparently Iran, India, and Pakistan also have their own private procurement networks in place.

The University of Georgia’s Center for Mass Destruction Defense just concluded a three-year study, and said, “The likelihood of a nuclear attack in an American city is steadily increasing, and the consequences will be overwhelming.”

The study performed detailed simulations of nuclear detonations in New York, Washington, Chicago, and Atlanta. Two different sizes of bombs were simulated in each city. Prevailing weather patterns and even block-by-block population statistics from the US Census Bureau were included in the analysis.

The results were sobering. The worst case scenario was a 550-kiloton blast in New York City. This would kill up to 5 million people. (See graphic on next page.)

Other scenarios were almost as grim. Even a 20-kiloton bomb, which is relatively small, would still devastate its target city.

A while ago, the Department of Homeland Security instructed major population centers to build “Metropolitan Medical Response Systems”—systems and facilities for responding to major nuclear, biological, and chemical attacks from terrorists. Now we know why.

ated by means of taxes, intimidation, or control...

“The producer and the HP have very different moralities and very different economic behaviors. A producer is a win/win, cooperative person; an HP is a lose/lose person capable of appearing extremely friendly while he is trying to figure out where your wallet is. A producer respects [an]other person as a source of creativity and a consumer of his product. An HP sees another person as a carrier of a wallet that he wants to have. A producer sees a crew of the *Kursk* [the Russian nuclear attack submarine that sank six years ago] as young lives tragically cut short. HP sees this tragedy as a loss of his weapon of intimidation.”

The article goes on to say that the current Russian leaders, if challenged about their thievery and lust for power, are quite open about their actions. They would say things like, “Why is it that destroying people’s lives, stealing millions, and bragging about it is “immoral” or “embarrassing”? Is it not what you’re supposed to be doing?” According to this author, the only moral code the Russian leaders have is this: “Do not steal more than the leader allows, and be completely loyal to him until he shows a weakness.”

Is this article overly pessimistic? I don’t think so. Russia has never had a free, stable society: the Russians went from the czars, to the Bolsheviks

Thermal Impact of 550Kt Surface Nuclear Detonation on New York City with Weather as of September 17th, 2004

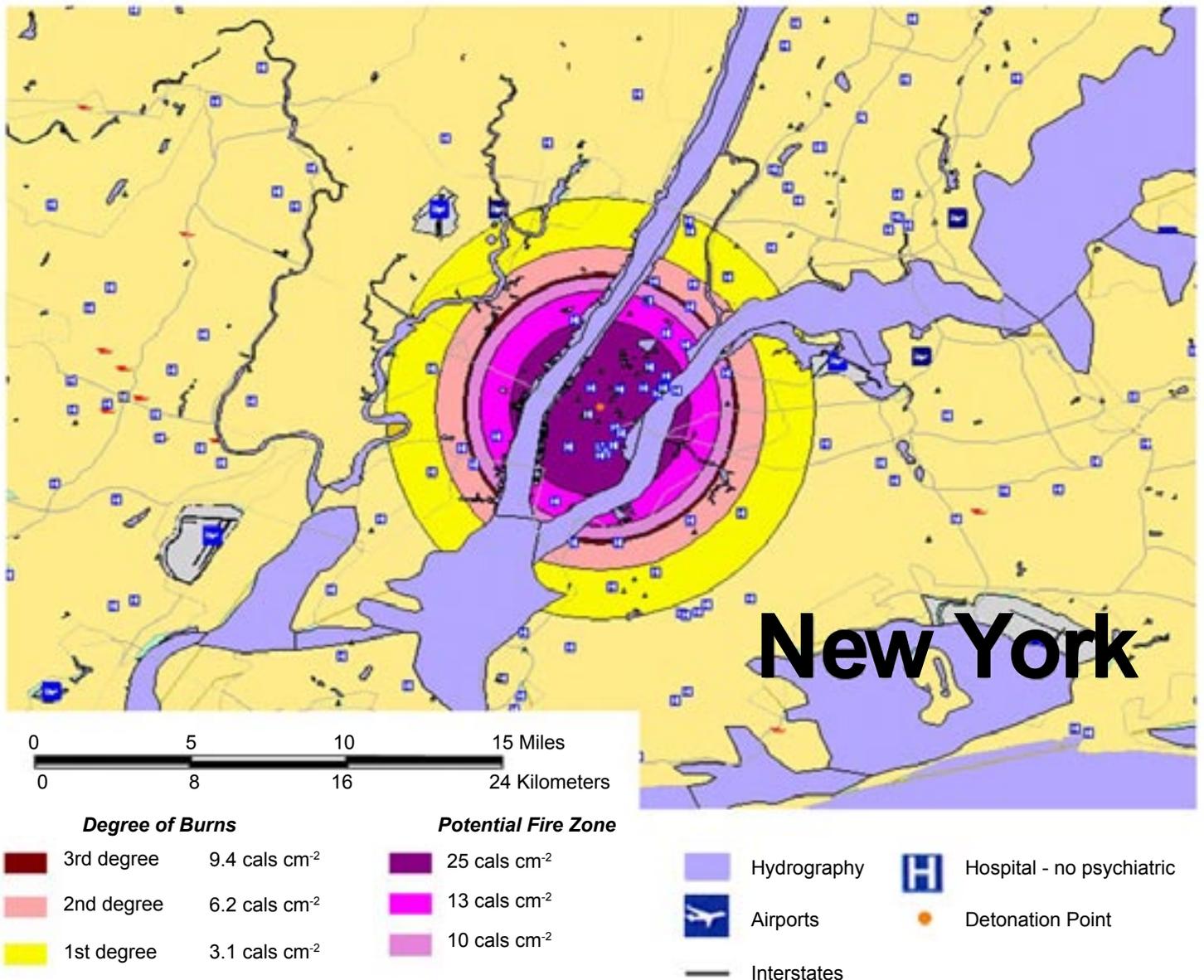


Image source: *International Journal of Health Geographics*. <http://www.ij-healthgeographics.com/content/6/1/5>

and Communists, to Putin today. The only time the Russians haven't had a dictator was the eight years or so in the 1990s between Communism and Putin. And that time was complete anarchy, as organized crime 'families' fought openly in the streets with guns and grenades.

Russians are used to dictators. Unfortunately, they've been taught to crave the 'peace' that a strong leader brings. As Putin grows ever bolder, the average Russian just shrugs. 'Of course, he's a tyrant. This is Russia—what else did you expect?'

I mention all this for two reasons: one, another Cold War would cripple the American economy. Two, Putin could cripple us in a different way if he starts throwing his weight around in the energy markets.

Gold Stocks: Not such a good idea after all!

In the past, I've taken criticism for not recommending enough gold stocks. After all, this newsletter focuses on gold as one of its primary topics—and mining stocks are a nice, high-leverage way to invest in gold, right?

Wrong! As I've said before, gold is gold and stocks are stocks. They're different investments, and they need to be approached differently.

If you've followed my advice about buying physical gold and rare coins, you've profited handsomely from the current gold bull. Investors who went for the stocks instead haven't done so well. Mining stocks have underperformed gold—by substantial amounts, in some cases.

Why has this happened? Despite the multi-year gold bull, most mines *still* aren't doing as well as expected. For example, last month Newmont Mining reported its earnings. They were disappointing, to say the least.

Among other reasons, Newmont's production costs have skyrocketed. The announcement mentioned that at one of its Nevada mines, costs have shot up from \$395 per ounce last year to almost \$500 now. Other gold mines are having problems too.

As a *GEA* reader, you aren't surprised by this. I've warned about it before. But the news from Newmont (and other companies) is worth mentioning here again. There are excellent reasons why I recommend some investments, and don't recommend others.

There are lots of analysts out there talking about the wonderful leverage you get when you buy gold stocks. As you can see, though, there's more to mining stocks than what these analysts are telling you. Stick to physical!

We saw yet another small example of that earlier this month. Starting in late April, ethnic Russians stirred up mass rioting in the cities of Russia's neighbor, Estonia. Then, on May 1st, Russia halted oil and coal exports to the country. Deliberate, orchestrated hacker attacks also began (and still continue as I write this) against Estonia's government computer systems.

What is the reason for all this? It was supposedly because Estonian leaders had moved a Soviet war memorial (a statue of a soldier) from its previous location in the capital, over to an international military cemetery. Russians howled that Estonia was "desecrating" the memory of the brave Russian soldiers who had protected Estonia from the Nazis.

By the way, the Estonians have very different memories of those soldiers, who invaded and occupied Estonia in 1940. The Soviet military statue honors an 'Unknown Soldier'. The Estonians' local nickname for it is the "Unknown Rapist."

Nevertheless, the Estonians weren't desecrating the memorial, just moving it to a more appropriate location. Estonia even invited Russia to send a delegation and see the memorial for themselves.

As the *Economist* reported, when the Russians arrived they "repeatedly insulted their hosts, while demanding that "political prisoners" be freed... This has scary echoes for Estonians. In 1940 a Soviet delegation issued similarly phrased demands. Weeks later, Estonia was wiped off the map."

Incidentally, Estonia wasn't freed from the Soviet jackboot until 1991.

The ongoing bullying of Estonia today is an ugly revelation of Putin's character. And he's using energy as a blackmail weapon. Again.

Russia controls over 10 percent of the global oil market. How long before we see energy blackmail on an international scale?

Far-Off and Irrelevant? Nope!

Fifty years ago, it didn't matter much what the rest of the world was doing. We were self-sufficient in most things, including energy. So events elsewhere didn't affect us much.

However, that's not true anymore. Our economy is dependent on world markets for many things, but the most important of all is oil.

The events and trends I've described in this issue might seem remote, but they're not. It's true that geographically, they're far away. But their impact will be felt here in America.

This summer, gas prices could go up, or they could go down a little. But either way, the oil bull still looks strong long term!