

By Moe Russell

Oil Prices Increase Farm Costs

In July we held our ninth annual summer conference for clients of Russell Consulting Group in South Sioux City, NE.

Sano Shimoda, president of Bio-Science Securities, Inc., spoke on

encompasses oil shale, Canadian tar sands and the extra-heavy oils of Venezuela.)

This underground formation holds at least 800 million barrels of recoverable oil – triple the re-

serves of Saudi Arabia.

Until now it has not been economically possible or environmentally feasible to harvest this oil.

Vinegar has developed cutting-edge

technology that, according to Shell, will produce large quantities of high-quality oil without harm to the local environment, and be profitable at prices around \$30/barrel.

How much production is available is uncertain, but the government estimates 2-5 million barrels a day.

The U.S. uses almost 21 million barrels a day and imports about 10 million barrels a day, so even the most optimistic projections do not bring the country to energy independence. Plus, it will take years to get there.

But oil shale could reduce the risk premium built into oil prices.

Additionally, new research from the University of Wisconsin suggests that a northwestern U.S. basin might have more oil shale than Colorado, Wyoming and Utah.

In an article in *Forbes'* Nov. 12 issue, oil price analyst George Littell, partner in Groupepe, Long & Littell,

indicates that oil prices could drop sharply within two months. Here's how Littell sums it up.

Last year, Saudi petrocrats thought demand would slack at the same time production would ramp up from non-OPEC nations, so they cut back production nearly 12%. That caused nearly \$100/barrel oil, which not even the Saudis want. They would like to see it at \$60; therefore, they have increased production.

We don't know what oil prices will do, but if we are going to have \$60 crude soon, I would not book next year's fuel needs now. From a risk management standpoint this is critical, as David Kohl, professor emeritus from Virginia Tech, estimates that about two-thirds of all non-land costs in corn and soybean production are directly or indirectly related to oil.

Potentially lower oil prices are good news for production agriculture. Will Sano Shimoda be right about the biofuels industry? No doubt biofuels are here to stay, but the economics may change dramatically. ■



“Biofuels, A Dot Com Bubble in the Corn/Soybean Fields?”

Shimoda's comments were most informative, including: “If the biofuels industry is to be competitive in the long run, it needs to have costs down to where it could compete with \$25-30/barrel oil without the need for long-term subsidies.”

I wouldn't question someone with the knowledge, experience and stature of Shimoda, and, I have thought about his comments for the last four months.

Recently, I read an article in the Nov. 12 issue of *Fortune* magazine that relates to Shimoda's comments.

The Royal Dutch Shell chief scientist, Harold Vinegar, has discovered a way to extract oil from the Green River Formation, spanning some 17,000 sq. mi. across parts of Colorado, Utah and Wyoming. This formation is arguably the largest unconventional oil reserve on the planet. (Unconventional oil

Leapfrogging

The second week of November, Royal Dutch Shell announced an extended agreement with Codexis, a California-based biotechnology company, to continue to work on cellulose-ethanol technology.

It might serve us well from risk management and planning standpoints to note that so far, the oil companies have leapfrogged the corn-based ethanol industry. That could change fast, but it is indicative that biofuels are here to stay and the economics may change. We in ag production will need to position our industry to compete with wind, solar, nuclear and hydrogen energy sources – all part of alternative energy sources.

The future, although uncertain, will be exciting. ■

Moe Russell is president of Russell Consulting Group, Panora, IA. Russell provides risk management advice to clients in 28 states. For more risk management tips, check his Web site (www.russellconsultinggroup.net) or call toll-free 877-333-6135.