

# The Alternative Line

by Joe Holzer for Publication in CNY-PCA Redline Report Copyright 2008 <http://www.holzerent.com>

## Be Careful What You Mandate...

With my work in the global energy marketplace, I pay more attention than usual to issues which affect that marketplace. Some of that attention has benefited me in my investments because of my awareness of infrastructure opportunities. A 5/7/08 article by Reuters addresses an issue which is important to anyone with a performance automobile, and it will affect all of us in ways we might not have imagined. It is also a subject about which PCA Tech Adviser Allan Caldwell has written extensively.

Essentially, the article spoke of the proposed settlement of a federal suit over groundwater pollution caused by the gasoline fuel additive MTBE (methyl tertiary butyl ether) which was selected in 1979 to replace lead as an anti-knock fuel additive, and became mandated in 1990 by Congress. Its initial advantage was that it provided cushioning, like lead, for valve seats, while not destroying the catalytic converters starting to be used. It should be noted that originally formulated no-lead gasoline was only available in a low octane quality, which was incompatible with performance engine compression ratios. In a sense, MTBE was an ideal solution since it allowed more efficient engines to still improve air quality, thereby gaining fuel economy along with cleaner air. In fact, it is unlikely that any of the world "fleets" could have made the mandated CAFÉ, which was implemented at the same time, without it.

There was an alternative; ethanol. But the energy cost to make it in sufficient quantity was, and still is, merely a transfer of consumption point, a fact regularly overlooked by proponents of ethanol as a fuel "which can reduce our dependence on foreign oil". And for those who have not been paying attention, the recent doubling and tripling of the cost for corn has been a direct result of the use thereof to make that fuel instead of food. And substitutions of other grains to make up for that has resulted in rice and wheat becoming so dear that huge populations of the planet's poorest are on the verge of starvation as a result. The political implications of that make a potential nuclear Iran seem a mere trifling. Desperation leads to desperate actions.

However, living up to my two mantras; "TANSTAAFL" and the law of "Unintended Consequences" (There Ain't No Such Thing As A Free Lunch and Shit Happens respectively) it turns out that MTBE also had another characteristic. Remember that the concern re lead in the first place had less to do with catalytic converters than with its general contamination as airborne particulate and as it washed into the drinking water supply. Its effects on brain health, especially in the young, was by then well documented. Well, it turns out that MTBE before combustion is readily flushed from the soil by rainwater, and when that flows into our reservoirs it leaves a taste like turpentine, and may be a carcinogen. The good news is that it occurs only at the point of spills, not as a result of tailpipe emissions. The bad news is that the likelihood of small concentration spills is at every gas station or storage tank, while large concentration spills are likely at refineries where it gets mixed with the petroleum distillates to make the gasoline.

Here is some more bad news; while you undoubtedly think that Big Oil has been making a killing as the price of gas approaches (and will exceed) \$4 a gallon, you probably are unaware that the owners of the feedstock oil have been raking in the cash, while the margins for refining have been dropping steadily. They have simply not been able to pass along the same rate of rise of barrels of light sweet crude as gallons of 87 octane at the pump. So despite the prices you see, both the service stations and the refiners are being squeezed.

Smart people think about implications, which is why I rarely think of "smart" and "politician" except as contradictions. A perfect example is the recently announced rise (again) in the NYS Thruway Tolls to offset reduced traffic. Which would suggest that Wal-Mart should start INCREASING their prices, since people are buying less there because their own incomes are being spent on higher fuel and food costs. But I digress. Oil companies have really become little more than refiners and distributors, while ownership of much of the world's oil resources has been taken over by governments who have seen the potential upside therefrom. By agreeing to a huge penalty and almost unlimited "cleanup" costs over the next 30 years, oil companies have even further eroded their diminishing returns on investments. And such cleanup nightmares, while justifiably assigned to the responsible parties, will simply exacerbate an already fragile refining infrastructure here in the USA, further eroding real wealth production and job opportunities here, and will transfer those activities, which will still be demanded by an energy-hungry world for a long time, to third-world locations where neither environmental nor human safety counts for much. It is a business imperative in the absence of fundamental rules preventing it.

When California and New York in the late 1990's decided to require removal of MTBE, its substitution with ethanol became inevitable. At least someone has pointed out that the volume of fuel we use cannot be immediately replaced because we haven't anywhere near the capacity even if we wanted to. But requiring oxygenation of fuels makes something necessary, and right now ethanol is the only option on the table besides MTBE, which actually provides much of the same benefit, albeit with the spill issue.

Ethanol provides no cushioning effect for valves. And while Porsches are unlikely to suffer as a result of its removal, many past domestic performance cars cannot make the same claim. Ethanol is a big problem, though, for mechanical fuel injection systems, and especially CIS, widely used in Porsches, because it provides no lubrication whatsoever in precision metal fitments which depend on it. And its tendency to absorb water, especially for cars which get driven very little, makes for a nightmare scenario. Hopefully, and for awhile, some supply of specialties like avgas and racing fuel will be available. But not if refiners are unable to make a decent margin. At a certain tipping point, our economic ability to afford a "stored" vehicle will be offset by the economic realities of the infrastructure demands they entail, in exactly the same way that our driver skills are inadequate to gain any special privilege on the roads we share with the mainstream incompetents who actually pay for them.

Government has mandated that specific and increasing percentages of the gasoline used must use ethanol. GM makes a big deal about their E85 vehicles being so "green", while neglecting to mention that the fuel costs almost twice the current cost for regular gasoline unless subsidized by government (and how long can THAT last before the gasoline taxes lost have to be offset?). As this is being written, politicians are pandering by suggesting that there should be a gas-tax "holiday" to reduce the fuel cost burden for the summer of '08, while most evidence suggests that people are not so stupid as to not realize that the bucks have to come from somewhere, and that there is very little likelihood that such a gesture would actually save anybody anything, and might simply prolong the inevitable realization that we consume far more fuel than we need to, and perhaps instead we should be making smart decisions sooner.

At this moment I wish to step forward and reiterate something I have said about CAFE for years; I drive my RV, which gets atrocious gas mileage but returns a host of offsetting values, and will continue to do so even when gas costs like it does in Europe. I will continue to examine the cost for fuel against the alternative costs. So a two day stay at Watkins Glen is still break-even. But if all else stays the same and gas goes to six bucks a gallon, then getting a room at the Falls Motel instead will be the choice (I thought about it this year for the first time). The cost for gas for my Porsche will be no deterrent, simply because there is NOTHING which can substitute for that affirmation of LIFE, not just existence. Carol will be unlikely to replace her Cayenne with a 911 for fuel economy, but might drive it a little less. (Carol – take heart; I am actually thinking of replacing the 993 at some point with a Cayenne, because at some point I will no longer be able to get out of the 993, and the gold-chain crowd who bought Cayennes in the first place are starting to dump them at fire-sale prices as gas costs rise, while you and I still recognize the value of a true four-seat vehicle I can fit which still says Stuttgart in the hood crest). All the Swiss drivers of Cayennes we saw in Appenzell are not crazy. But I bet a lot of them also own small efficient cars for their daily commutes. Americans are starting to see the light. For the first time this year, four cylinder cars are outselling those with six. And as the marketplace changes based on the underlying cost for that fuel, so too will the quality of the choices in those fuel-efficient cars. We don't need CAFÉ, a ridiculous mathematical joke pulled from some politician's butt which has only resulted in absurd machinations like Porsche buying over 50% of VW so its average corporate fuel economy for Europe (where, god help them, similarly stupid CAFE ideas are taking shape) would include Seat, Skoda and Polos to offset Cayennes and Turbos. For what real benefit exactly?

Yes, history is full of anecdotes where government mandate has tried to move individual thought. And failed miserably. Prohibition didn't stop alcoholism; it probably killed more people by making them drink unknown substances. It certainly killed a lot of people as it created an environment where organized crime thrived. Just as the current "war on drugs" has had little effect on the street price of those drugs, but has definitely affected the end user quality. And could readily be said to have created an entire underclass of violent criminals preying on their neighborhoods, and the utter despair of that situation in society. If good drugs could be readily bought at any corner grocery store, would ANY of those current characteristics exist today? Wal-Mart pharmacies might be very different. Joan Claybrook, a Ralph Nader protégé, insisted we must have supplementary restraint systems capable of protecting people from themselves, ie too stupid to wear the \$10 seat belts also mandated. So we have land-mines in the dashboards of every car now, we have killed numerous children with them who would not have been injured in the original crash itself. I and many others have been made criminals because she had a wet dream that data from the first gas shortage (which caused the original \$2/gallon equivalency) could be extrapolated to 20+ years of Double-Nickel. And killed FAR more people than the natural trend would have suggested in its absence.

The buzz today is all about global warming and our causing it by creating CO2. But scientists are starting to see empirical contradictions to that even while the world tries to ram Kyoto down the US economic throat. Maybe the problem is related more to the blanket of water vapor, which comprises a far larger percentage of the atmosphere. I don't know. But I do know that leveling vast portions of rain forest to plant corn or sugar for ethanol production would seem to be counterproductive. And leaving China and India to grow like unencumbered weeds while choking off the nation everybody seems to hate even while they seem to want to emulate us seems absurd. But what do I know?

I certainly do not have all the answers. I barely know a few of the questions. But I do know that I have never seen a single example where, TRULY left to make their own individual decisions based on their own personal perceived benefits, people collectively have not reached an optimum which is better than its predecessor, without having even discussed it with any other of those same participants. Adam Smith's "unseen hand of god", though I would argue that I see no evidence of any but the most vindictive "god" involved in any way. I recognize that saying so means that the religious right will never nominate me for President. Thank god. ;-)

I do not believe there is no place for government. I believe there is no place for government where government gets in the way of doing the right thing. The right thing is to assure that no PERSON should be prevented from doing what they see as their own best interest, so long as that does not infringe another person's doing likewise. That is not so radical an idea, nor does it suggest no law whatsoever. Government is best when it protects me from you and you from me, but at its worst when it hopes to protect me from me and you from you.

The cost of government, including the cost for the defense of our way of life, must be borne somehow. If we generally believe we should protect our environment (and we certainly should – do you sleep in your toilet? You sleep in SOMEBODY's), and provide for the general welfare, then taxing fuel is as fair as anything else, and perhaps more fair than other regressive taxes. This is not intended to suggest that I want more tax, since I read tax law and use it to minimize my taxes wherever possible. But if we seriously wish to have energy independence then we must take a few reasonable steps, however bad that medicine might taste:

- a) Recognize reality.
- b) Define the environment as it currently exists in that reality, and hold all accountable to make it no worse.
- c) Using the resources domestically available for the long term, craft policy which makes their use the lowest cost to the end user, and all alternatives more costly relative to their perceived worth to us (OPEC isn't going away soon, but nothing says we cannot tax oil from Holland lower than from Iran, and nuclear is the ONLY current technology which could allow current infrastructure to transition from oil to another mobile fuel, whatever that could be, without further perceived harm to that environment). That means that if it would cost \$5/gal at the pump to utilize oil shale, whose current US reserves exceed the reserves of the Saudis, then there must be at least a \$1.50/gal tax on all imported oil. Period.
- d) If, in the short term, that causes undue hardships, then allow for some means to offset that, without diminishing that pump price which will drive higher efficiency where real choices DO exist. But avoid wholesale empathy for those who HAD the opportunity to not be in an economic hardship, and CHOSE not to take that path. I have no sympathy for dropouts nor other irresponsible behaviors wherein my failing to be as irresponsible somehow equates to my having to BECOME responsible for them thereafter.
- e) Then get the hell out of the way and let the marketplace optimize around that structure.

If we did so I am certain that most SUV's in major metro areas would soon disappear, replaced by Smart cars or the like. But I also suspect that large pickups would continue to be the norm in the hinterland, simply because they ARE Superb Utility Vehicles. It would not be by 2009. But it would certainly be by 2029 that we would have seen a sea change in our transport systems. Where feasible, mass rail transit would become more like Europe, and cars would be significantly more efficient. ONLY Al Gore's minions think the Autobahn is inconsistent with high fuel costs, though. Most of Germany resoundingly feels it is a cultural necessity for Germany, and an economic one as well since it leads naturally to those like us who buy Porsches BECAUSE they were designed to run there. Well run and maintained nuclear plants (partly because the penalties of doing otherwise would be so onerous) would form the foundation for production of electrolytic hydrogen at the same plant locations, well away from metropolitan areas. The economics would justify development of the host of technical solutions needed to use that in place of "gasoline", but as an adjunct to gas at the distribution points so as to rapidly accommodate the early adapters almost universally (I foresee dual-fuel capability in otherwise current configuration automobiles and trucks as transitional technology, eventually becoming like the BMW "water car", with liquified hydrogen dispensed to carbon-fiber pressure tanks in the cars along with small gasoline tanks for emergency refills), and gasoline eventually found at specialty "convenience" stores only, just as horse carriages eventually were replaced by the horseless ones – mostly but not absolutely, and SOME infrastructure for those continues to this day.

And NOT because it was mandated, which is a fictional artifact, but because it was based on a rational principal, universally accepted, combined with the natural forces so well described by Darwin. You know; what made sense at that time. And every time since.

