

**Today's Notes:**

1. **GETTING SMALLER**
2. **GOLD INTERVIEW**

**1. GETTING SMALLER**

David Rosenberg (July 13, 2009) makes a strong case in his thesis that the US, in general the OECD, is about to get “smaller.” This has been a central thesis of mine for 6 years. Americans have been living well above our means mostly due to the generosity of global capital markets (foreigners) who have supported our lifestyle by buying our debt (lending to us). The average North American owns 1.2 cars, more than 1 home (1.25) and, in the U.S. in 2007, we consumed approximately 25% of the world's petroleum energy.

In 2007, the last year the updated statistics are available, the per capita (1000 people) oil consumption in China was 5.733 barrels per day. In the same year the US consumed 68.67 barrels per 1000 people. Canadians consumed 71.09 barrels of oil, roughly equivalent to their US cousins. Oh how we love to drive. More important the vibrant economies of North America depend upon an efficient transportation system. Per capita oil consumption in North America is between 12 and 13 times that of China. This is a Quality of Life artifact.

India's per capita oil usage (1000 people) was, by comparison, 2.41 barrels per day in 2007. Do you think it will remain at that level for very long? Think that windmills and solar panels will lower oil usage in India within the next decade? Ask Secretary of State Clinton as she scurries home from India with her Cap and Trade tail tucked between her legs.

The dynamics of a society's quality of life is, in large part, dependent upon **easy access to cheap energy**. The Obama Administration is taking the U.S. in the other direction at the behest of the environmental movement. It is a colossal mistake. It is then no wonder that India's leaders told Secretary of State Clinton today that India was not interested, at this stage of her development, of capping greenhouse gas emissions. You really cannot blame them. It is a result of a relentless force of human nature (the search for a better life – such a powerful force) that the populations of both China and India will, in the next decade or so, increase per capita usage of oil. Of course if China's 1.3 billion and India's 1.6 billion narrowed the gap by half the global community will exhaust known oil supplies. I am convinced of this eventuality. The oil usage disparity (13 times) with China and the disparity with India (25 times) **must** narrow. That will happen in two ways. Either the BRIC countries will increase oil and petroleum usage (almost a sure thing), or the OECD (particularly Canada and the US) will reduce its per capita oil usage (a more difficult and painful but certain eventuality). The following table shows oil usage statistics ranked by total oil use. It will not be long before both China and India displace the U.S. in this regard. I estimate at current growth rates, 10 to 12 years – at most. **Remember that geopolitics historically has always become involved with natural resource scarcity.** We need

alternative forms of energy – no doubt. Unfortunately they are not likely <sup>1</sup> to supply more than 15% of our energy needs within 20 years.

Rank	Countries	Amount	Date
# 1	<a href="#">United States:</a>	20,680,000 bbl/day	2007
# 3	<a href="#">China:</a>	7,578,000 bbl/day	2007
# 4	<a href="#">Japan:</a>	5,007,000 bbl/day	2007
# 5	<a href="#">Russia:</a>	2,858,000 bbl/day	2007
# 6	<a href="#">India:</a>	2,722,000 bbl/day	2007
# 7	<a href="#">Germany:</a>	2,456,000 bbl/day	2007
# 8	<a href="#">Brazil:</a>	2,372,000 bbl/day	2007
# 9	<a href="#">Canada:</a>	2,371,000 bbl/day	2007
# 10	<a href="#">Saudi Arabia:</a>	2,311,000 bbl/day	2007
# 11	<a href="#">Korea, South:</a>	2,214,000 bbl/day	2007
# 12	<a href="#">Mexico:</a>	2,119,000 bbl/day	2007
# 13	<a href="#">France:</a>	1,950,000 bbl/day	2007
# 14	<a href="#">United Kingdom:</a>	1,763,000 bbl/day	2007
# 15	<a href="#">Italy:</a>	1,702,000 bbl/day	2007
# 16	<a href="#">Iran:</a>	1,679,000 bbl/day	2006
# 17	<a href="#">Spain:</a>	1,611,000 bbl/day	2007
# 18	<a href="#">Indonesia:</a>	1,219,000 bbl/day	2006
# 19	<a href="#">Netherlands:</a>	984,200 bbl/day	2007
# 20	<a href="#">Australia:</a>	966,200 bbl/day	2007

Dean Le Baron (founder of Batterymarch) suggests that a better way to judge a country's quality of lifestyle progress is by monitoring electricity usage. Here the rubber meets the road - so to speak. Carbon cap and trade will likely burden Canadian and American electricity users with a 30% (or higher) tax. It is no wonder that India and China are reluctant to sign onto such folly. In fact without China and India agreeing to the greenhouse gas issue there is little reason for any new energy taxation whatsoever. The upcoming global warming meetings in Copenhagen will ultimately come to naught.

The following table is instructive. It shows the astounding increase in electricity usage in China (a 100% increase between 2001 and 2006). **In spite of alternative energy programs, China must have oil, coal as well as nuclear.** China recently signed several oil development agreements in Africa and agreed to purchase the Swiss oil from ADAX with exposure in Western Africa. These natural resource development deals place the availability of uranium in question. Why has President Obama's Secretary of the Interior Salazar this AM placed a two year moratorium on new uranium mining claims on the Northern Arizona Strip? This makes no sense in the global demand scenario for electricity and hence uranium and thorium. The U.S. imports 92% to 94% of its current uranium needs. These US uranium resources have been mined in the past and have been shown to be environmentally benign.

### CHINA'S ELECTRICITY CONSUMPTION DOUBLED BETWEEN 2001 AND 2006

Date	Amount	Rank
<a href="#">2006</a>	2,859,000,000,000	#1

<sup>1</sup> According to Energy Secretary Stephen Chu, May 18, 2009 Bloomberg TV, within a couple of decades renewable forms of energy will only supply 15%, 20% or 25% of our needs.

<a href="#">2005</a>	2,197,000,000,000	#2
<a href="#">2004</a>	2,170,000,000,000	#3
<a href="#">2001</a>	1,312,000,000,000	#3

By comparison the US electricity usage has stabilized – albeit at a higher level (and much higher on a per capita basis). The growth rate in usage is virtually zero. Still the US ranks first in total electricity usage

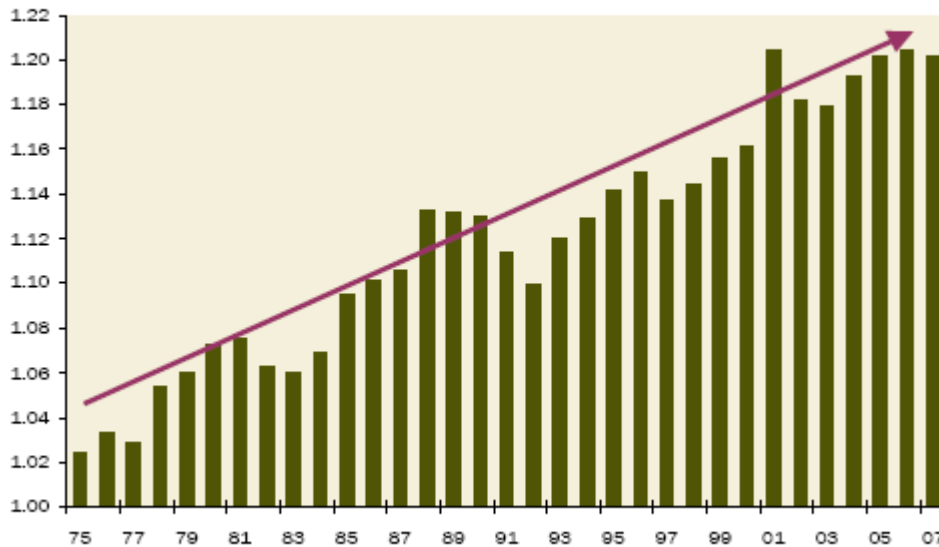
### U.S. ELECTRICITY USAGE (HISTORICAL DATA)

Date	Amount	Rank
<a href="#">2007</a>	3,892,000,000,000	#1
<a href="#">2005</a>	3,816,000,000,000	#1
<a href="#">2004</a>	3,717,000,000,000	#1
<a href="#">2003</a>	<sup>2</sup> 3,656,000,000,000	#1
<a href="#">2001</a>	3,602,000,000,000	#1

One of the most revealing sources of data that David Rosenberg provides is the ratio of cars to licensed drivers in the US. This again is a quality of life statistic. Between 1975 and 2007 that ratio has risen steeply. It is about to rise steeply in the BRIC countries as well and with it petroleum usage. But our usage will now drop reflecting the reversion to the mean in the quality of life in the US.

#### United States

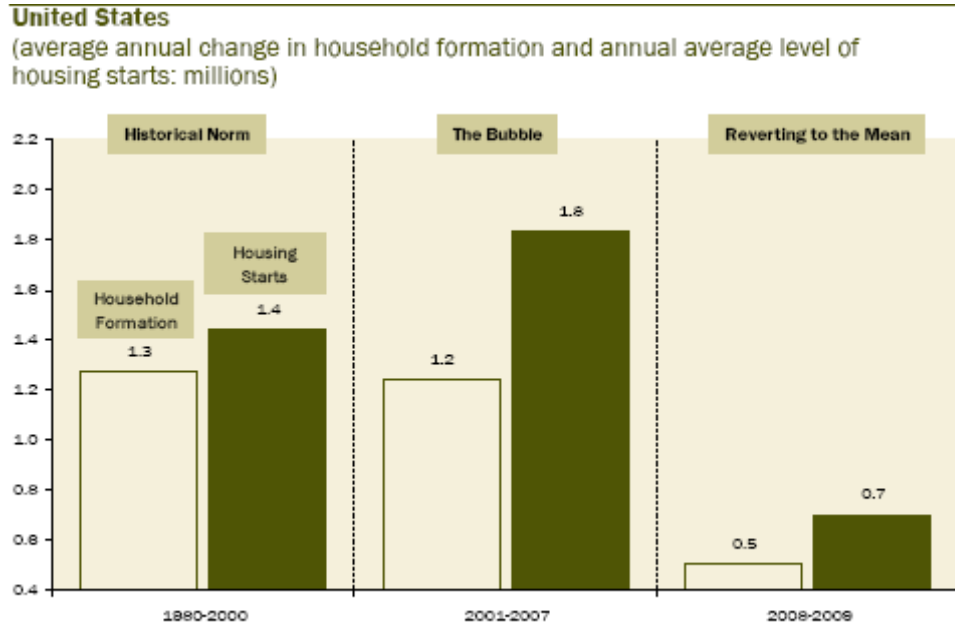
Ratio of Vehicles to Licensed Drivers  
(ratio)



Source: Haver Analytics, Gluskin Sheff

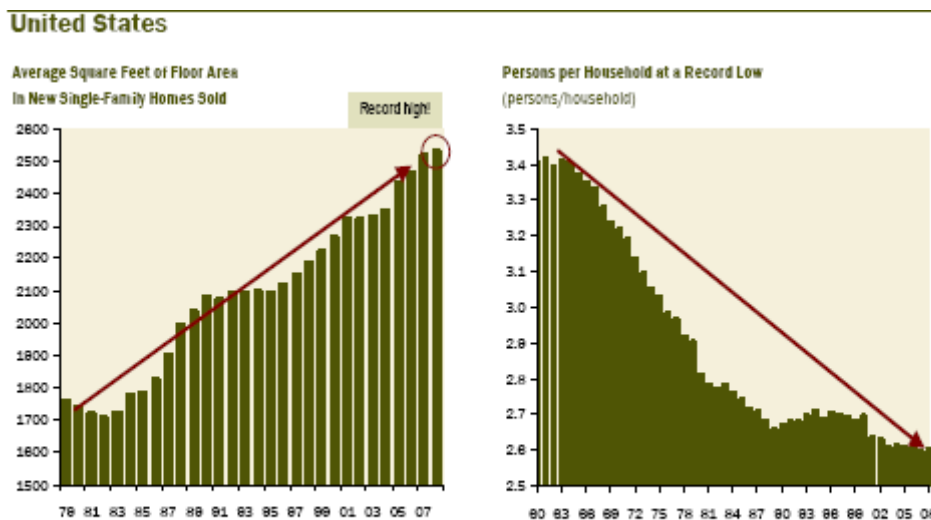
<sup>2</sup> 20 million pounds were mined by Energy Fuels Nuclear in the 1980s. You would be very hard pressed to even see the location of the mines today.

Likewise the housing bubble in the US is shown in the following chart. It is easy to see the mean reverting nature of the housing bubble here. This means another drop in the quality of life as those who have not earned the right to home ownership are put into foreclosure and their debt borne by the banks and the taxpayers. Eventually debt de-leveraging will be complete.



Source: Haver Analytics, Gluskin Sheff

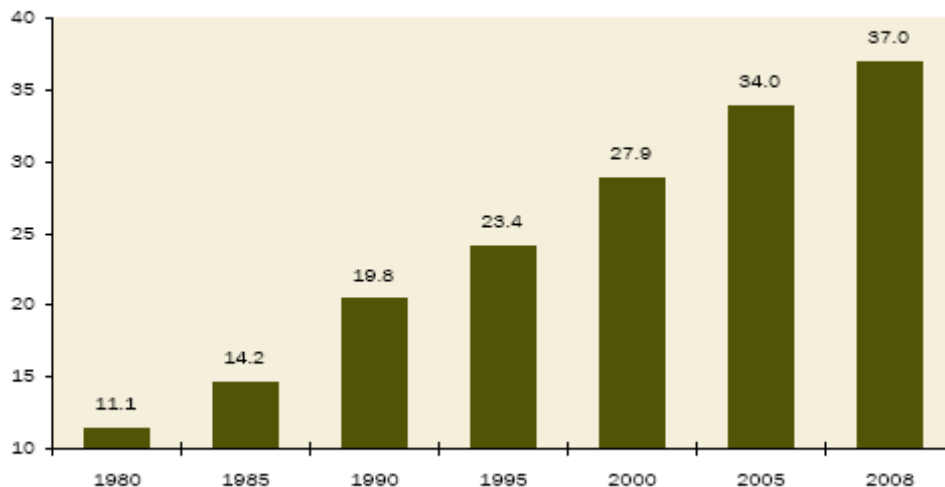
These are both artifacts of America's housing addiction but more importantly its very high quality of life quotient. I expect that over the next few decade China will begin to see these types of housing improvements. Finally when all is said and done China's economy will be a consumer economy. You can see the American love affair with consumer durables. Expect China to follow in these footsteps. It is only a matter of time.



Source: Haver Analytics, Gluskin Sheff

## United States

Household Ownership of Consumer Durable Goods  
(\$ thousands per household)



Source: Haver Analytics, Gluskin Sheff

## 2. GOLD REPORT INTERVIEW

[www.TheAURreport.com](http://www.TheAURreport.com)

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