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Oil fever hits the U.S.—a new North

In recent months, there has been a sudden shift away from the pervasive doom and gloom in the U.S. media over oil shortages forecast by the Central Intelligence Agency and former Energy Secretary James Schlesinger. Suddenly the pages of the *Wall Street Journal*, the *New York Times* and the *Washington Post* have begun to report a new "oil boom" in the United States.

The major oil companies have initiated a public relations campaign to inform the American public of abundant petroleum and have, in turn, begun to make the necessary investments to exploit such petroleum resources. Similarly, the Department of Energy (DOE) since the departure of Mr. Schlesinger has changed its tune on oil supplies. At this month's World Petroleum Conference in Bucharest, Romania the DOE was cited by the *Christian Science Monitor* on Sept. 12 as having released data showing that the U.S. has a whopping 301 billion barrels of crude oil reserves, an estimate 10 times higher than traditional estimates of proven U.S. reserves.

Coinciding with such revelations is a report issued earlier this month from the Ford Foundation entitled, "The Next Twenty Years." The report which was administered by the Resources for the Future, a group heavily funded by the Rockefeller family, states that "the world is not running out of energy," but that low cost sources of oil will soon be depleted leaving only more costly oil to be exploited in the 1980's.

The Ford Foundation's assertion that the world economy must be prepared to accept escalating costs for energy including the higher costs for petroleum coincided with the major oil companies' claim to abundant oil, but at higher costs.

Both Wall Street analysts and oil industry sources concur that the crude reserves within the U.S., which comprise most of the 300 billion barrels reserve figure cited by the DOE, are much more costly to extract than oilfields currently being exploited and require a market price of at least $30 a barrel. The incentive for the companies to go for this high cost oil came earlier this year with the 50 percent oil price rise by the cartel, OPEC, and the concomitant decision by the Carter administration to begin decontrolling the price, allowing certain categories of U.S. crude to raise to the world price, i.e., the new OPEC price ceiling of $23.50. According to a Midwest oil industry source, the price of stripper crude (produced from fields that yield 11 barrels or less a day) has risen to as high as $30 a barrel as a result of decontrol. Approximately 20 percent of U.S. production, between 1.5 and 2 million barrels a day, comes from stripper wells.

The North Sea model

The current oil boom in the United States bears a striking resemblance to that process which allowed for the development of the North Sea. Numerous inside sources in the oil industry admit that the North Sea and the North Slope in Alaska, both controlled by British interests, were only made "economical" following the massive increase in the world market price of crude as a result of the fourfold price hike by OPEC in 1974. Both areas required massive capital investment to bring them on line. Historically, projections of oil reserves by government and private concerns have been political numbers games, predicated upon oil market manipulation by the most powerful multinational companies to force higher prices and make more expensive extraction costs "economical."

As the current energy situation within the U.S. demonstrates, sources of energy which in the long term could cheapen the social cost of energy such as nuclear fission and fusion are eliminated from the array of options which comprise a national energy policy by special interest groups, such as the environmentalists, which this publication has shown to be tied into the financial powers running the major oil companies.

The report from the Ford Foundation, which speaks for the major oil companies and the so-called Eastern Establishment elites within the United States is blunt: the rising costs of energy will cause a downturn in national productivity and a possible decline in the real wages of American workers, not to mention the effects

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Sea swindle?

of a $30 a barrel price on the rate of inflation in the U.S.

Hence, as the major oil companies' quarterly profit figures continue to show record increases, the rate of inflation and national debt of the nation's economy continues to worsen.

Oil rush West

The Southwest has become the center of what New York investment analysts call the new "oil fever" for the U.S. According to one such analyst, oil company stocks are climbing in anticipation of major new finds particularly centered in the region known as the Overthrust Belt which runs from the Canadian border through Idaho, Utah, Wyoming, and Montana. According to the Aug. 27 *Wall Street Journal*, the "boom" began in the Overthrust Belt in 1975 with the first major strike made by the American Quasar Company. It is by no means a coincidence that the first strike occurred following the fourfold OPEC oil price hike.

August 1979 quotes on new mechanical land rigs

Depth rating	Cost ($ million)
7,000 ft.	2.3
10,000 ft.	3.4
12,000 ft.	3.6
16,000 ft.	4.2
20,000 ft.	4.6
25,000 ft.	5.2

Offshore rigs have had similar cost run ups

Water depth	Type	Cost ($ million)
200 ft.	Jack Up	24
300 ft.	Jack Up	30
1,000 ft.	Semi	55

Source: *Oil and Gas Journal*, Sept. 24, 1979

According to the Denver-based Rocky Mountain Oil and Gas Association, since as early as 1920 the major oil companies were aware of the oil and gas producing potentialities of the Overthrust Belt. But, at that time, the technological demands of exploring in geologically difficult areas where reserves were expected to exist under complex sediment and at great depths made the area economically unattractive. It was only in the late 1960s that the Atlantic Richfield Company began exploration in the area, at a time when OPEC began to implement periodic price increases following the takeover of Libya by Muamar Qadaffi, a price hawk within OPEC.

According to oilmen with onsite experience within the Overthrust Belt, drilling there is "very risky" and expensive and, within the Northern sections of the belt in Idaho, "horrendous," given the bitter weather and rugged geological conditions. Nonetheless, Amoco intends to drill in Idaho at a cost of $10 million a well.

Not coincidentally, just at the time when the region is becoming increasingly attractive to the major oil companies, the Forest Service, which with the Interior Department controls sizeable chunks of the land in the region, has granted 4.9 million acres of land to the companies for exploration. The September issue of the *Colorado Business Magazine* reports that Standard of Indiana, a subsidiary of Amoco, controls over 90 percent of the private land and public leased land under exploration and has "farmed out" the land to smaller independents who do the exploring.

According to the Rocky Mountain Oil and Gas Association, there may well be as much as 26 billion barrels of oil under the Overthrust Belt and comparatively much more natural gas. But, as with much of the regions now slated for exploration, the drilling is deep and expensive.

The International Petroleum Exhibition just held in Tulsa, Oklahoma featured new technologies in deep drilling to depths of 20,000 to 30,000 feet—depths which the accompanying chart shows can cost $2 to 3 million a hole.

The other onshore "boom" area within continental U.S. is north of Los Angeles, the Kern County oil producing region. Kern County is now producing quantities of extremely heavy (high sulphur) oil with Getty and Amoco the leading producers in the region. The recent decision by the Carter administration to decontrol the price of heavy crude (under 16 gravity) was a major victory for oil companies exploring in Kern County. Reports the *Washington Post*, Kern County will now profit even more from the administration's decision. Commensurate with Carter's decontrol decision, the DOE has initiated a study to convert U.S. oil refinery capacity to take more heavy oil.

Like the Overthrust region, however, the costs of extraction are high. Oil companies with the capital must invest in expensive steam injection systems to loosen the heavy sludgelike crude and force it out of the ground. The companies must also add expensive scrubbers to their pumps to meet environmental standards. With the decontrol, heavy crude can now be marketed at $15.00 a barrel and California lobbyists are calling on Carter to extend his decontrol to heavy oil up to 20 gravity weight.

Shell Oil (69 percent owned by Royal Dutch Shell) just bought the Belridge Oil Co. of California for a record $3.6 billion following bids of up to $2 billion by Texaco. The tiny Belridge Co. reportedly owns massive reserves of California heavy oil.

Numerous industry sources anticipate that by 1980 the controversial Santa Barbara Channel offshore oilfields in southern California may be actively explored once a jurisdictional dispute between the Interior Department and the Department of Energy over the area is resolved. Again there are reportedly abundant reserves in the area where Exxon holds major fields, but exploitation requires deep water drilling which runs into the millions of dollars. Recently, the Britain-based Imperial Chemical Company and Standard of California made record bids for leases for offshore channel oilfields, an indication that the area may soon come under active exploitation.

Other areas slated for future exploitation are the Beaufort Sea off the Alaskan peninsula, the Baltimore Canyon off the Northeast coast, and the eastern section of the Gulf of Mexico, all requiring major capital investments. The outer continental shelf was also proposed as an area for exploration in a recent Atlanta Energy Seminar called by Carter. Costs of drilling in the shelf were estimated to go as high as $15 million a hole!

The dramatic climb in the cost of rigs over the last decade only further increases the costs of drilling. According to the *Oil and Gas Journal*, rigs that cost a few hundred thousand dollars at the beginning of this decade may now cost as high as $3 million. An offshore jackup which cost $5 million now costs as much as $25 million. Said one New Mexico independent oilman, numerous pieces of legislation which have hampered domestic production in favor of imported oil, and the astronomical price hikes in drilling costs are forcing many smaller producers to the brink of bankruptcy. "Only larger integrated oil companies with refining, transport and marketing systems have the massive profit margin needed to invest in exploration in areas like Overthrust or offshore in the U.S.," he said.

Government complicity

The pattern of legislation and proposals within the Congress demonstrates their complicity with the major oil companies to make investments in high cost U.S. exploration profitable. This is occurring at a time when the Senate is taking President Carter's synthetic fuel program apart bit by bit.

Only last week the Senate Finance Committee, considered to be stacked with "pro-oil company" senators, passed an amendment by which all new oil discovered since 1978 would be exempt from the controversial windfall profits tax which Carter proposed be applied to the profits domestic producers would make from decontrol. By making new oil exempt, "Carter has thrown a big cookie to the oil companies who are able and ready to step up exploration in untouched areas within the U.S.," said a New York oil analyst. At the same time, the Finance Committee has proposed an additional $1 billion tax on "old oil" discovered prior to 1978. Both recommendations conform to the Ford Foundation report.

Moreover, the Senate Finance Committee this week voted to exempt the first 1,000 barrels a day from stripper wells from the windfall profits tax. The combination of these two recommendations from the Senate Finance Committee will tax the middle size independent oil producer out of existence. Moreover, smaller stripper producers, said one independent oil man, are being told bluntly that "he will always be a little guy ... if a smaller producer grows then anything he produces over 1,000 barrels a day will be taxed to hell." If the influential Senate Finance Committee's recommendation passes the Congress and becomes law, it will give the major oil companies a highly lucrative market position within the U.S.

The same oilman noted: "the multis will have all the incentives they need to take over the U.S. oil industry. If you consider the impact the higher costs of oil will have on inflation, which has hit the smaller producers quite hard, in the next few years the costs of drilling holes will probably have doubled again. This will drive even the smaller producers out of business who are already having trouble getting the needed capital to continue exploration."

The big question in examining the future of the U.S. economy under these circumstances is whether or not the multis will even find adequate oil and bring it on line quickly enough to meet U.S. consumption needs. A Washington-based oil industry expert thinks the "oil rush" is blown out of proportion in terms of its future yield to the domestic economy. But one thing can be stated for certain, if the present course of events continues it will give the multinational oil companies the legal and corporate leverage to take over the U.S. energy business lock, stock, and barrel.

—*Judith Wyer*