Import dependency leaves U.S. open to new oil shock

by Anthony K. Wikrent

In 1989, the daily average of U.S. crude oil production fell to a 26-year low, and exploration activity by the U.S. oil industry practically ceased. But federal officials displayed no concern whatsoever, even as experts began warning that the U.S. was becoming dependent on imports for more than half of its daily oil consumption. The consequences of the failure to enact an import tariff trigger price of $20 per barrel when it was proposed by economist Lyndon LaRouche in 1986, are now plain to see as U.S. oil production has dwindled, the domestic oil industry lies in ruins along with the shattered economies of Texas and Oklahoma, and the U.S. government has abandoned the principle of energy independence.

The second largest factor in the chronic U.S. trade imbalance of $100 billion-plus per annum is crude oil, with an annual deficit of around $36 billion. In dollar terms, and as a percentage of U.S. oil consumption, U.S. oil imports are at record highs. The highest level of oil import dependency ever—54%—was reached in January 1990 as distributors struggled to replace stocks badly depleted by the unusually severe cold wave of December 1989.

As recently as 1985, when higher prices were still driving domestic production, imports were less than one-third of consumption. In 1963, when domestic demand was about half of what it is currently, imports accounted for only 16% of supply. But now, oil industry experts say that relying upon imports for half the nation's oil supplies will soon be the norm. Imports of petroleum rose 17% in 1989 alone. In July, imports of 8.6 million barrels per day (mbd) exceeded domestic production of 8.4 mbd. It was the fourth month ever that imports surpassed domestic production—the other three months were in 1977. (See **Figures 1** and **2.**)

This new level of import dependency is attributable not to an increase in consumption, but to an accelerating collapse of domestic production. The daily average of crude oil production for all of 1989 was 7.6 mbd, the lowest since 1963, according to the American Petroleum Institute. The 1989 average was down 553,000 barrels per day (bpd), or 6.8% from the 1988 average. Production of oil on Alaska's North Slope fell for the first time since the field was opened in 1977, by 140,000 bpd. By contrast, oil imports increased 8.2% from 1988, to an average of 7.9 mbd. (See **Figures 3** and **4.**)

In January 1986, the *EIR Quarterly Economic Report* for the fourth quarter of 1985 predicted a spiraling collapse in commodity prices, as the looting (decapitalization) of basic manufacturing and production resulted in a collapse of demand. *EIR* specifically predicted that the 10% decline in commodity prices in 1985 would accelerate to a 20% collapse in 1986, and warned that the price collapse would not ignite an "economic boom" as was expected by almost all economists, but rather would eliminate entire chunks of mining, processing, and manufacturing capacity.

In March 1986, the *EIR Quarterly Economic Report* for the first quarter of 1986 predicted that the collapse of world oil prices to under $10 per barrel, which had just then occurred, would devastate the U.S. economy. *EIR* specifically warned that "two-fifths of U.S. oil production will shut down, one out of five Alaskans will lose their jobs, 9 out of the top 10 Texas banks will fail, and some of the biggest U.S. industrial sectors will shut down, in the wake of the rounds of oil price cutting. The collapse of oil production, oilfield services, and oil-related capital investments will eliminate 5% of total U.S. industrial production—not counting the disastrous side-effects due to bankruptcies, layoffs, and financial panic." The predictions proved prescient.

To avoid such a disaster, then-presidential candidate LaRouche proposed, in his own "State of the Union" address on Jan. 29, 1986, the adoption of an oil import tariff with a trigger price of $20 per barrel. Rather than heed LaRouche's warning of impending economic disaster and adopting his proposal, the elites of the Anglo-American Establishment decided to prepare for the mass discontent such an economic collapse would incur by accelerating their preparations for a police state in the United States. In December 1988, a federal court with intimate connections to the "parallel government" of the Anglo-Americans railroaded LaRouche into prison.

Decapitalization

In August 1989, Gary Nicholson of LTV Energy Products Co. estimated that the U.S. oil industry had been decapitalized by 75 to 80% since 1982. The industry had been forced to "downsize," with many companies forced out of business, while others were consolidated or merged. Plants were closed and equipment sold at auction at 10% of cost and inventories were liquidated at 5 to 10 percent on the dollar, resulting in enormous financial losses for the entire industry.

In addition, as much as 50% of known U.S. oil reserves have been abandoned, according to a new Energy Department study. That figure is up from 30% in 1980, and estimates may go as high as 70% by 2001. Even if oil prices rise to $34 a barrel, the study predicted that 60% of oil reserves, excluding Alaska, will be abandoned. Making matters worse, abandoned wells cannot be brought back into production because environmental laws require that they be cemented shut, and the surrounding land restored as close to its natural state as possible.

In September 1989, the *Houston Post* reported that of 106 publicly held oilfield service firms operating in 1981, there were 42 that had been liquidated, sold, or had discontinued oilfield service-related operations. Matthew R. Simmons, president of the Houston consulting firm Simmons and Co. International, told the *Post* that 1989 "will go down in the record book as the worst ever for the oilfield service industry—worse than '86 or '87."

Exploration collapses

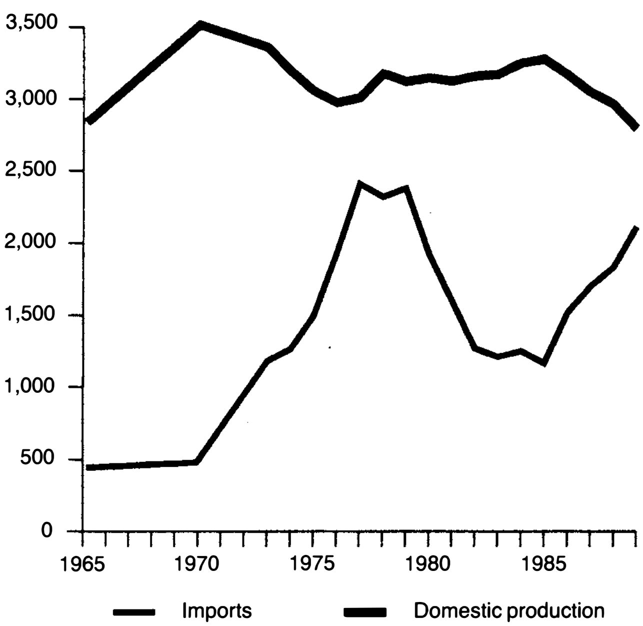
Especially alarming is the collapse in exploration activity, which ensures that the decline in U.S. production will continue. According to Reed Tool Co.'s 37th annual drilling rig survey, the number of rigs now available for drilling is 2,542, compared with a high of 5,644 rigs in 1982. The Reed Tool survey includes only rigs that have been worked in the last three years, or can be refurbished and returned to service for less than $50,000. In previous years, most attrition came from aging rigs being retired from service. But last year, the primary cause of reductions was cannibalization—taking replacement parts for one rig from another—a blatant form of decapitalization.

Until last year, a closely watched indicator of oil exploration activity was the number of drilling rigs in operation, which has been reported each week since the early 1940s by Baker Hughes Inc., the Houston-based manufacturer of oilfield equipment. According to Baker Hughes, the U.S. operating rig count is now comparable to the pre-World War II years when our nation's Gross National Product was roughly one-eighth what it is today. The monthly average operating rig rate for 1989 was 816, the lowest rate since 1942 when drilling was nearly halted due to diversion of steel use to the war effort. For 1990, Baker Hughes is forecasting that the rig count will fall below the 1942 monthly average of 761.

FIGURE 1

Crude oil production and imports, 1965-88

(millions of barrels)

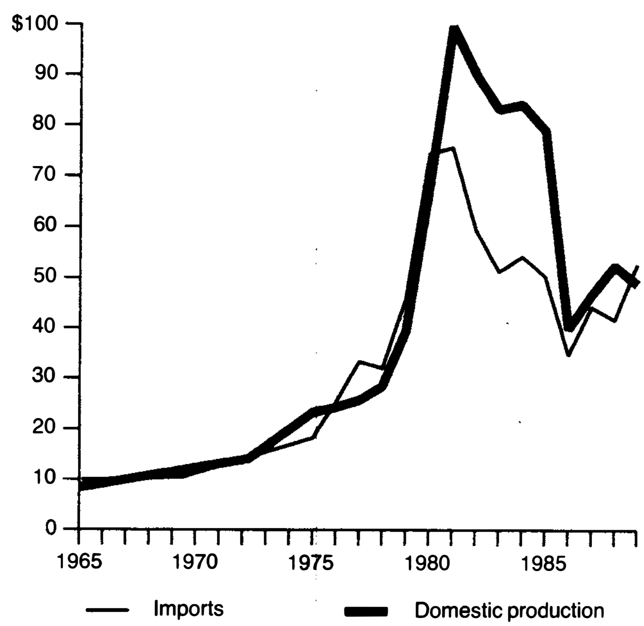


Source: *Statistical Abstract of the United States*

FIGURE 2

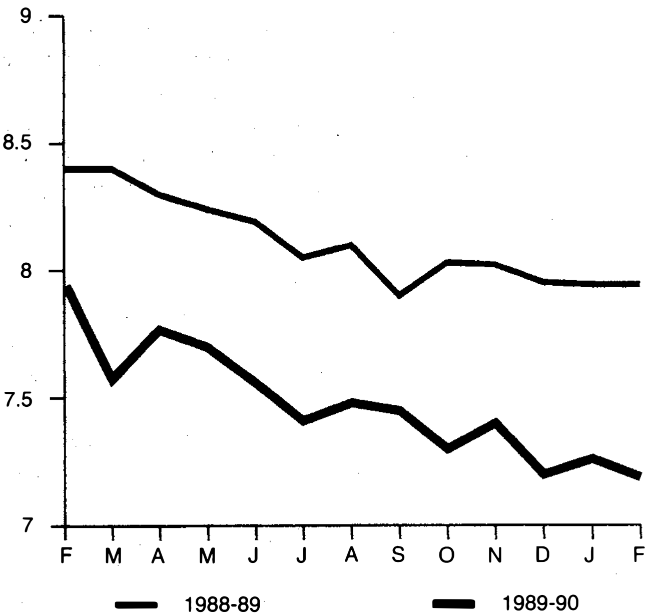
Dollar value of oil production and imports, 1965-88

(billions of $)



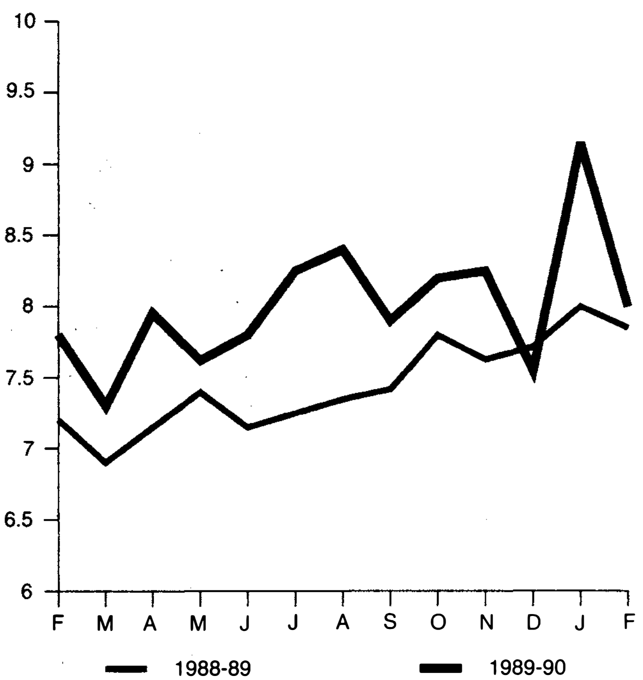
Source: *Statistical Abstract of the United States*

FIGURE 3
Monthly crude oil production, 1988-90
(millions of barrels per day)



Source: American Petroleum Institute Monthly Statistical Report

FIGURE 4
Monthly oil imports, 1988-90
(millions of barrels per day)



Source: American Petroleum Institute Monthly Statistical Report

Between 1944 and 1985, the Baker Hughes annual rig count averaged less than 1,000 only one time; on a monthly basis, it averaged less than 1,000 only 14 times in those 41 years. Since 1985, it has been below 1,000 for 32 of 41 months. By contrast, in December 1981, there were 4,500 rigs engaged in the United States with 1,317 rigs in Texas alone. (See **Figure 5**).

Though the number of working rigs has risen slightly, oil industry experts say that it is not enough to reverse the decline in production. "The increase is not enough to turn production around. Two hundred [more] rigs wouldn't do it. I doubt we'd even see the impact of 200 rigs," I.C. Kerridge, vice president of Baker Hughes, told the *Journal of Commerce* in October 1989. Kerridge added that doubling the number of rigs is required to merely maintain oil production at its current level.

J. Steven Larkin, executive vice president of the Houston-based Petroleum Equipment Suppliers Association said that 60% or more of the oilfield service industry's sales originate overseas because of the collapse in the number of operating rigs in the United States. He expressed concern over the decline in domestic drilling, stating, "If we compress exploration and development drilling by two-thirds, we will have essentially taken ourselves out of oil and gas drilling by 1995."

In February, the American Petroleum Institute released figures showing that all other indicators of oil exploration have collapsed as well. The total number of feet drilled dropped 16.8% in 1989 to 130,689 feet, compared to 157,076 in 1988. In 1981, there were 406,520 feet drilled. The number of exploratory feet drilled dropped 22.7%, to 28,477 feet, from 36,861 feet in 1988. The total number of oil and gas well completions declined 12.8% to 28,804, from 33,041 in 1988. In 1981, 90,030 wells were completed. According to the Society of Exploration Geophysicists, the monthly average of seismic crews in the field—trying to find the best place to drill an exploratory well—collapsed 27.5%, to 132 crews, from 182 in 1988. In 1981, there was a monthly average of 681 seismic crews in the field (**Figures 6** and **7**).

Moreover, the success rate of exploratory drilling has declined alarmingly, to 12.5% in 1989, compared to 14.3% in 1988, and an historical level of between 17% and 18%. The decline of the success rate illustrates the pressing urgency of defeating the genocidalist environmental movement, and opening areas such as offshore California, and the Arctic National Wildlife Refuge in Alaska to exploration. But, President George Bush, who has very close links to Big Oil, has proved true to his campaign statement that "I am an environmentalist," and is now pushing to elevate the Environmental Protection Agency to cabinet status.

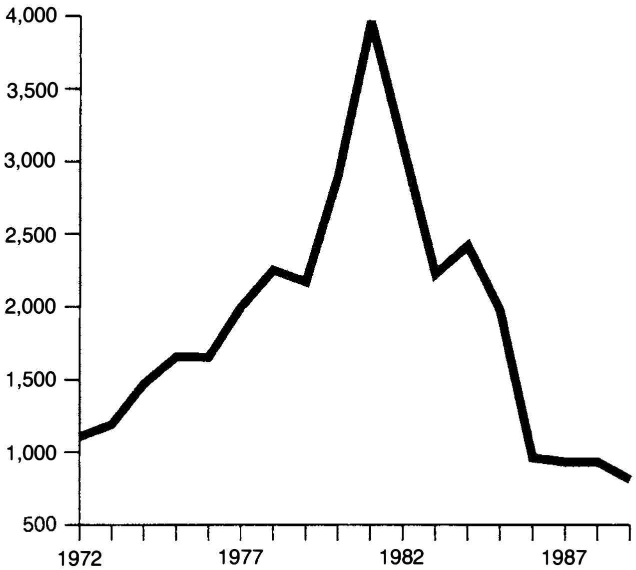
U.S. unarmed

While the large Anglo-American oil companies, such as Exxon, British Petroleum, and Royal Dutch Shell are

FIGURE 5

Number of operating oil rigs in U.S.

(monthly average)

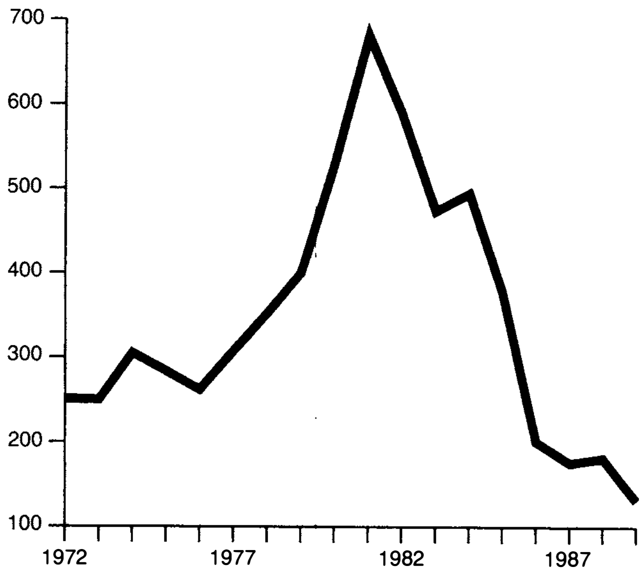


Source: *Petroleum Independent*

FIGURE 6

Seismic crews in the field

(monthly average)



Source: *Petroleum Independent*

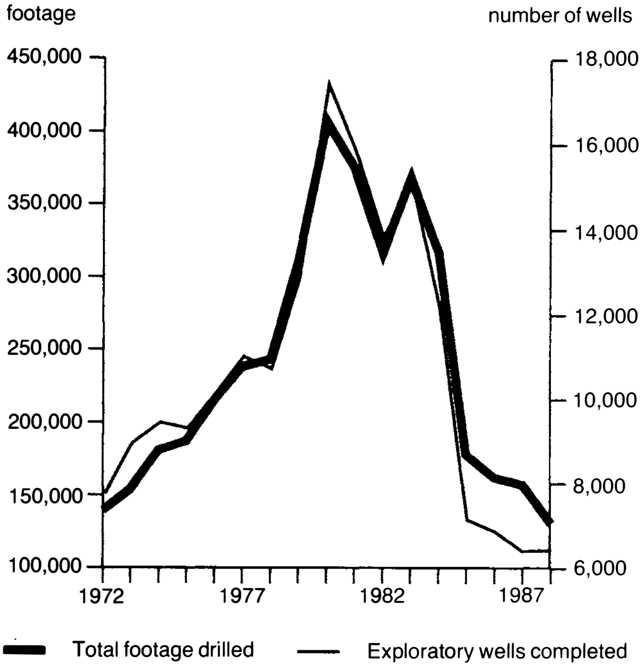
conspicuously silent about the destruction of the U.S. oil industry, the smaller independent operators are not. In September 1989, Eugene Ames, chairman of the Economic Policy Committee of the Independent Petroleum Association of America, charged that the "economic collapse" of the industry from 1985 on "proved we not only had no energy policy, but not even a glimmer of a plan to deal with such catastrophic events." Ames said that the Reagan administration should have realized that the free fall in oil prices in 1985 was "much more than a little economic pain for a Mickey Mouse industry, but was a calamity for the whole economic infrastructure of the nation. The fallout from the administration's hands-off approach is now plain to see in hundreds of billions of dollars in costs too large to total . . . destruction of a trillion-dollar supply, service, drilling, and producing industry . . . bank failures and foreclosures on every hand . . . taxpayer losses of tens of billions in federally insured real estate foreclosures, many settled for pennies on the dollar."

The IPAA committee which Ames heads is drafting a policy to revive the domestic oil industry before the next oil shock hits. "What is needed," Ames said, "is some means of restoring confidence that oil prices will stabilize at $20 with an expectation of improvements from there. The President of the United States should make clear that he will not tolerate cartel price manipulations that yoyo the U.S. oil economy and create disruptive uncertainty."

Barry Russell, general counsel of the IPAA joined Ames in warning that the U.S. was ill-prepared for another oil shock. In the August issue of *Petroleum Independent* magazine, Russell wrote that "conditions have changed dramatically in the petroleum industry since the 1970s. . . . In 1979, industry response to higher prices was strong. The industry was already in an expanding mode and there was a strong expectation shared by bankers and investors that prices would go even higher. Universities were enrolling record numbers of geologists and petroleum engineers, and service and supply companies were prospering. Today after the industry has suffered through a severe contraction, many stacked rigs have been sold or cannibalized, workers have moved into other jobs and careers, and banks and investors will be less likely to provide funds for drilling. In short, the industry's ability to respond to the next crisis may not be nearly as strong. As the domestic industry continues to collapse and imports increase, the United States appears to be heading into the next energy battle unarmed."

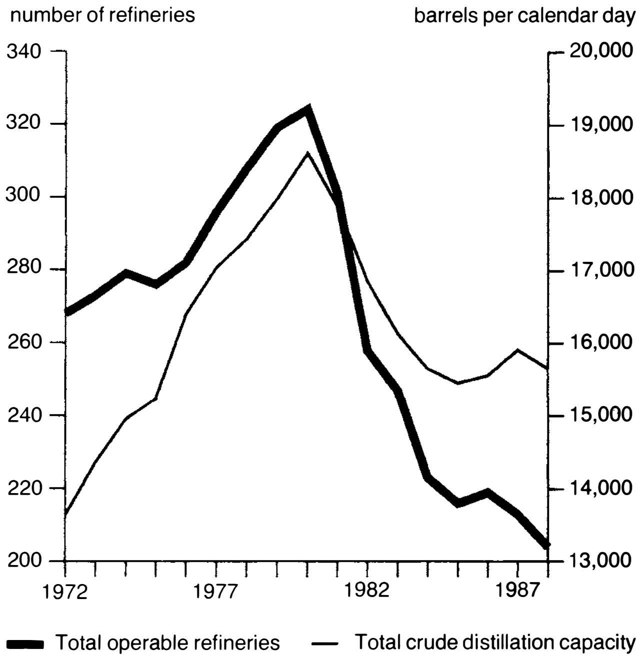
And it is not just the oil industry that ought to be of concern to U.S. policymakers. According to energy expert Melvin A. Conant, also writing in the August *Petroleum Independent,* during the 1973 oil crisis the United States was spared a complete breakdown of its economy by a rapid growth in nuclear power generation. This time around there will be no nuclear, or any other, cushion to fall back on. "At the time of the 1973 embargo," Conant wrote, "U.S. utilities were constructing more than 50 large nuclear power plants. Twelve new ones began operating that year, 14 the next year, a total of 87 in the years since. Today, though, the situation

FIGURE 7
Exploratory wells and total footage drilled



Source: American Petroleum Institute

FIGURE 8
U.S. oil refining capacity



Source: Energy Information Administration

is very different. There is not a major power plant under construction in the entire country that was started in the 1980s, and none on the drawing boards. Even though our use of electricity is climbing by more than 4% a year, utilities are making essentially no commitments to new baseload power plants."

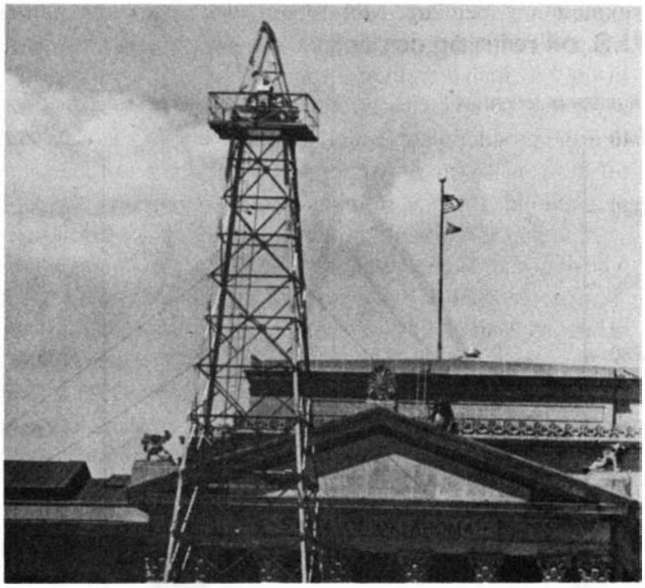
Oil shock to prop up financial system

Increasingly, there are signs that the Anglo-American elites who concocted and implemented the "post-industrial" policies, are now preparing a new oil shock as a means of saving their bankrupt system of usury. Since international oil contracts are denominated in dollars, a steep run-up in the price of oil would benefit the ailing financial institutions of Wall Street and London enormously by increasing the demand for dollars. The Anglo-Americans have twice before used an oil shock in this way, in 1973-74 and in 1979, when the Saudis and other Persian Gulf oil producers deposited their petrodollars in London and New York banks, providing liquidity for years of bailouts. In the case of an oil crisis, the big winners would be the U.S., the Soviet Union (the largest producer, badly in need of foreign exchange to buy the consumer goods and food needed to quell the upsurge of rage against the communist system), and the British, with their North Sea oil. The big losers would be Europe, Japan, and Third World industrializing countries like Brazil and Argentina, whom London and New York desire to cripple economically, and especially a reunified Germany.

On March 26, a top Anglo-American operative, James R. Schlesinger, who has been, at various times, the first Secretary of Energy, Secretary of Defense, and Director of Central Intelligence, told the Senate Energy Committee: "That we will see a price surge in the decade seems to me beyond question." Schlesinger predicted that the expected rise in oil prices would result in the U.S. expenditure on imported oil in 1995 being greater than the entire 1990 trade deficit.

The next day, Schlesinger's predictions were echoed by Deputy Undersecretary of Energy Linda Stuntz who is in charge of preparing a national energy strategy commissioned by President Bush in July 1989. Stuntz told the Senate committee that over the next few years, electricity and motor fuel prices will rise 5 to 20% higher than inflation.

But the clearest indication that the Anglo-Americans have a new oil crisis in the works were the bizarre actions of the Saudi Arabian central bank, beginning March 26. That day, the Saudi Arabian Monetary Authority stunned traders around the world by selling 3 million ounces of gold, worth about $1.62 billion, driving gold prices into the steepest one-day decline in a decade. More surprisingly, the Saudis bought an enormous amount of British pounds-sterling with their gold sales proceeds. Then, on March 28, the Saudis swept



Producing oil wells grace the Oklahoma State Capitol lawn. The Capitol area was a part of the Great Oklahoma County Oil strike in 1928. Now, disinvestment of the petroleum industry has turned Oklahoma into a pocket of depression.

into the primary U.S. Treasury bond market and placed bids for $1.5 billion of the $8 billion in notes that were up for sale. As a result, dealers who had placed low-priced bids for the securities were forced to go to the secondary markets to buy what they wanted, which had the effect of driving up prices on all Treasury securities.

According to high-level sources in London, the Saudis undertook these bizarre sales and purchases under heavy pressure from certain U.S. and British elites. The Anglo-American thinking behind these machinations is that bludgeoning the gold markets half-to-death with such unexpected and enormous sales will convince investors that the dollar is a safer investment than gold, making it easier to continue financing the deficits of a bankrupt U.S. economy. This is especially crucial at a time that the Germans and Japanese appear increasingly unwilling to continue pouring billions of marks and yen into the U.S. sinkhole.

Limited reserves

Just as important to take into account as the demented financial machinations of the Anglo-American Establishment, are the very limited reserves currently held by the large

Anglo-American multinational oil companies. Based on known reserves and current production rates, Exxon has current reserves of only 7.4 billion barrels, giving it only 11 years of production left; Royal Dutch Shell has only 14 years of reserves left; Mobil has 12 years; British Petroleum has 13 years; and Chevron has 9 years. By contrast, Saudi Aramco, the Saudi national oil company can continue to pump oil for at least 126 years; Kuwait has 171 years of reserves left; Iran has 110 years; Iraq has 101 years; Libya has 61 years; and Venezuala has 80 years.

But the big Anglo-American oil companies are not planning new capacity; rather, they are cutting back exploration and production staffs, eliminating the potential for future increases in production. The president of Amoco's production operations, Patrick J. Early, told the *Wall Street Journal* on Oct. 27, 1989, that Amoco plans further decreases in exploration spending. Mobil Corp. has cut its exploration and production division by over 20% over the past two years. In 1989, British Petroleum eliminated 1,700 jobs, about 10% of the total company workforce—almost all from its exploration and production operations. Since 1988, Texaco has sold off most of its "marginal" producing operations. The same picture holds for U.S. refining capacity (**Figure 8**).

Cui bono? Certainly not U.S. industries and consumers who may soon be once again sitting in lines, queueing up for "scarce" petroleum-based fuels. By creating another round of artificial shortages—by simply reducing capacity—the Anglo-Americans perhaps believe that they will extract as much as they can for the little oil they have left, and keep their system of usury intact that much longer. The real question is: Will the American people allow themselves to be suckered a third time?

Dr. Gallo and AIDS—'let's restore truth'

In a statement released the first week of April, Twenty-First Century Science Associates congratulated the National Cancer Institute for finally admitting that Dr. Robert Gallo borrowed the AIDS virus he claimed to have discovered, from the Pasteur Institute of France. "This tardy acknowledgment, of what had been well known in the scientific community for years, should be the beginning of a campaign to restore science to the pursuit of truth," the scientific organization which publishes *21st Century Science & Technology* stated.

"The issue of the discovery of the virus, now known as HIV, is exemplary of the type of moral and intellectual corruption which currently permeates science today. This corruption reached its height in the agreement between the laboratories of Robert Gallo, at the National Cancer Institute, and Luc Montagnier, of the Pasteur Institute, which settled the patent dispute between them. The settlement included a jointly fabricated 'history of the discovery of the AIDS virus,' which was totally at variance with the published scientific literature.

"This substitution of a legal fiction for scientific fact was then enforced by brutal suppression of any attempt to portray the documented truth of the matter. One of the most frightening forms this took was the heavy-handed thuggery of Assistant Secretary of Health and Human Services, Dr. Robert Windom, who intervened with the full force of his agency to suppress publication of an English translation of the book *AIDS vom Molekul zur Pandemie*, by Dr. Michael Koch of the Federal Republic of Germany. One cannot underestimate the deleterious effect on scientists of witnessing this bureaucratic censorship of a thoroughly documented scientific publication."

The statement continued, "It is ironic that after Dr. Gallo and Dr. Montagnier cut their deal to divide the royalties of the AIDS antibody test kits, the actual discoverers of the virus, Dr. Jacques Chermann and Dr. Françoise Barre-Sinoussi, were eased out of the Pasteur Institute. What message does this send to those young people who look to scientific careers as an opportunity to pursue truth?

"The issue is larger than the personal foibles of Dr. Gallo or Dr. Montagnier. The issue is 'mafia science,' exemplified by 'cutting deals' and 'plea bargains' in a manner analogous to our corrupt judicial system. It is the use of brute force to constrain those who speak the truth. Unless the agencies which initiated the investigations that led to the National Cancer Institute findings are prepared to tackle these issues, and correct these abuses, then the 'Gallo affair' will simply be one more amoral witchhunt carried out in the name of administrative fascism.

"It remains to be seen whether Dr. Gallo is simply one more casualty of the gang warfare which characterizes the governing process in this country, or whether this case represents an actual attempt to rescue science from the cesspit into which it has fallen. One thing is certain. The type of sleazy science exemplified by this case will not produce the weapons we require to fight AIDS and the other pandemics which will inevitably follow it."