

# Plenty of 'cheap' oil in the United States?

The U.S., which is now being subjected to a rigged "oil shortage" could be exploring and producing 100 to 250 billion barrels of oil. That oil lies untapped under the ground and could in combination with Arab-African imports provide the U.S. with sufficient oil until nuclear fission and fusion technologies are fully exploited in the 1990s.

This statement flies in the face of what the New York Council on Foreign Relations and the Seven Sister oil multi's would have conditioned you to believe. They rigged the energy crisis environment and are using it to institute a planned shrinkage of the U.S. economy. According to these sources, the U.S. only has 50 to 100 billion barrels of cheaply accessible reserves. They say the more abundant "hard to get at" reserves can be developed only at the exorbitant price of \$30 to \$40 per barrel—a price that will wreck the U.S. economy.

The actual amount of oil that exists to be developed cannot be exactly known, for reasons that will be explained below. The oil and exploration companies that hold much of the onshore and offshore land-leases or who can afford government land leases have a policy of withholding data about the size of reserves.

Within the U.S. oil industry, there is a disagreement over how much oil is extractable by conventional means. The debate is often shaped by the market position of a particular company. Occidental Oil Company executive L.F. Ivanhoe is quoted in the Oil and Gas Journal, Aug. 27, refuting claims made by such companies as Cities Services that there is abundant domestic oil to be found albeit at very high prices. Occidental was motivated by its major domestic investment in nonconventional tar sands oil.

## Where is the oil?

Oil supplies are distributed both on- and off-shore throughout the U.S. According to the Dallas-based Pitts Energy Group, "98 percent of the prospective sediments in the U.S. are untouched by drilling." Another New Mexico-based oil explorer reported "probably 90 percent of all the oil in the U.S. is not developed."

Some of this oil, such as in the Wyoming-New Mexico-Utah Overthrust Belt would be too costly, perhaps, to develop. But much of the oil in the South-Far West is still available through primary recovery methods as is off-shore oil.

This oil can be developed at a cost far less than is

publicly quoted. First, in 1967, official government sources placed the cost of producing a barrel of Saudi crude at 26 cents. Saudi Oil Minister Yamani, on a trip to the U.S. this year, stated that the cost of Saudi oil production is now 40 cents per barrel. The majority of production costs are for the exploration and the capital costs of starting up. Operating costs are minimal.

So why does oil production cost so much? U.S. oil production must exploit less accessible oil basins, thus costing more for production. This is important, but marginal. The culprit is the leasing of rigs and other exploration equipment, whose interest costs are paid twice. First there is the cost that must be borne by rig constructors in interest payments to the banks. Second is the cost of rig-leasing by the prospective driller. The rig-leasing is often done by the large New York City and Dallas banks, which charge exorbitant rental fees.

The New York banks moved in right after the Oct., 1973 "oil war" to push oil equipment costs through the roof. According to Offshore Rig Data Services, the costs of offshore drilling equipment—since 1973 the biggest area of demand—have risen as follows.

The cost of a semi-submersible rig in 1960 was \$8.7 million; in 1975, \$37.3 million. The cost of an average drill ship in 1960 was \$5.6 million; in 1975, \$32.3 million. The cost of an average jack-up rig in 1960 was \$5.2 million; in 1975, \$21.7 million.

These figures reflect a burst of speculation in offshore equipment that began with the introduction of federal guarantees for 85 percent of the loans to drilling contractors, and peaked in 1974.

During the 1960s, production and exploration costs were normally on a par basis with each other. Now exploration costs are double production costs, making exploration, the first step in oil development, prohibitive.

However, the problem only begins with the rig and other equipment costs. Following major pushes in the 1960s, by among others Alfred Kahn and the Kennedy liberals, the Tax Reduction Act of 1975 was passed, by which Congress placed limits on the amount which smaller companies could claim for oil depletion allowances and phased down the oil depletion rate to 15 percent, while for big firms, eliminated the allowance altogether. In fact, it was the Aspen Institute-run ARCO, whose chairman Robert O. Anderson first voluntarily got rid of the oil depletion allowance in 1973, which

cleared the way for the law phasing it down two years later.

The effect was to undo a tax which cost the government nothing and had actually increased revenues while forcing oil independents to adopt the deregulation-of-oil line as the only means by which they could recoup enough funds to maintain exploration. On top of this, environmentalist restrictions have crippled land usage and a 1977 law has made it doubly hard for independents to secure bank loans, while loading on new taxes.

Into this situation throw the multinationals' control of most of the reserves. The top eight companies operating in the U.S.—Exxon, Texaco, Gulf, SoCal, Standard (Indiana), ARCO, Shell, and Mobil control 64.0 percent of onshore reserves. They also own 64.5 percent of the leases for land in the Federal Gulf of Mexico and the Louisiana Outer Continental Shelf. The lesser majors—like the Lazard Freres-owned Ashland Oil—own another 20.3 percent, giving the top oil multi's 84.8 percent of U.S. Gulf oil leases. Moreover, due to changes in leasing law—by which companies must now pay royalties upfront, instead of over years as a percentage of profits—the big oil companies which can afford big royalty payments are favored to accumulate bigger reserves.

With the small-to-medium-sized independents pushed out, all the giant multinationals have to do to get a "shortage" is say that the productive drilled holes are dry or deliberately drill dry holes.

Those who say that the major multinational oil companies wouldn't do this, don't know history. The Exxon-British Petroleum-Shell-dominated Iraq Petroleum Consortium drilled dry holes for 30 years in Iraq-Syria, as recorded in written IPC memos since brought to light. The multi's also wrote off the East Texas-Oklahoma region where independents, not listening to the majors' dire warnings, found the biggest oil finds ever recorded in the U.S. (see chart.)

—Richard Freeman

