

## Energy Insider by John Hoefle

### The eye of the hurricane

*The U.S. oil industry is rapidly losing the capacity to meet the nation's needs.*

**T**he U.S. energy industry has been devastated since the days of the 1979 oil crisis, to the point where it may be nearly impossible to gear up to meet the nation's domestic consumption needs, should anything happen to disrupt the flow of foreign oil into the United States.

That's the very clear warning given by a group of oil industry executives in the July 1989 issue of *Petroleum Independent* magazine.

Gary Nicholson, president of LTV Energy Products Company, compares the situation to a hurricane. The front of the energy storm, he says, hit in the 1970s, causing great destruction to the country, with inflation skyrocketing from seemingly uncontrollably rising energy prices, power outages because supplies of energy were insufficient, and long lines at the gas pumps due to gasoline shortages.

The "raging hurricane" which hit the consumer then hit the domestic oil and gas business "with a fury, causing devastation unequalled to that in the industry's history—and for that matter, any industry in the U.S.," Nicholson writes.

The average active oil-drilling rig count fell in the United States from an all time high of 3,969 rigs in 1981, to 964 in 1986, with the number of active rigs falling to a post-World War II record of 663 in July 1986, when oil dropped to \$10 a barrel. At these prices, it was no longer economical to drill for oil, and some 75,000 wells were shut down, triggering a collapse in the oil well drilling, service and equipment industries.

As a result, the oil industry in the United States was forced to significantly "downsize." Some companies went out of business, others consolidated or merged, plants were closed and equipment sold at auction at 10% of the cost, inventories were liquidated at 5-10 cents on the dollar, which resulted in enormous financial losses for the entire industry.

According to LTV's Nicholson, the industry has been decapitalized by 75-80% since 1982, a process which continues today.

Continuing his hurricane analogy, Nicholson says that today the nation is in the quiet eye of the storm, waiting for the back side of the storm to hit. "The simplest facts unquestionably indicate that it is going to hit with even greater devastation if we maintain our current course. The only thing we cannot predict is when . . . but in any case, we await totally unprepared with an industry that has been virtually crippled, decapitalized, and incapable of responding with the sense of urgency which will be demanded by the outcries of the American people and then, only then, a sleeping Congress."

The depth of the crisis is indicated by a further look at the Baker Hughes, Inc. active domestic oil rig count. 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 months out of 41. The United States now has an active oil rig count that is comparable to the pre-World War II

years, when our nation's Gross National Product was roughly one-eighth what it is today.

The Independent Petroleum Association of America estimates that 1989 U.S. crude oil production will average only 7.8 million barrels per day, compared to 8.1 million in 1988, in the fourth consecutive annual decline. The IPAA also projects that total petroleum imports will rise 13.5% in 1989, to an average of 8.1 million barrels per day, on top of a 7.5% increase in 1988. Domestic petroleum demand is forecast to reach 17.5 million barrels per day, a growth of 1.8 percent over 1988.

Thomas Cruikshank, chairman of Halliburton Company, points out that the current reactions to factors influencing energy development in the U.S. have potentially serious long-range implications. The recent spate of oil spills from tankers and barges are politically used as justification for limiting domestic offshore oil and gas exploration; if that is done, he notes, it is certain to increase the very tanker traffic that gives rise to the problem, as compared to the relatively safer and less-damaging offshore drilling.

Cruikshank also points out the "questionable logic" of dismantling the Shoreham nuclear plant on Long Island, at a time when the New York area is experiencing brownouts and there is talk of future rolling blackouts.

The dismantling of the U.S. energy industry is all the more tragic, given the determination of the U.S. to turn the Middle East oil fields over to the Russian Empire as part of the world condominium.

Unless this vital national security crisis is addressed immediately, and a crash program instituted to rebuild America's petroleum and nuclear industries, one day, the lights really will go out.