

Energy Insider by William Engdahl

Politics versus reality

What world oil supplies really are, and whether they will now be developed.

With the nightmare of the Carter years of "war on energy" thankfully behind us, I think it appropriate to look at some basic assumptions which need to be destroyed if we are to pursue necessary energy growth. Since the controversial publication of the April 1977 Central Intelligence Agency report on petroleum supply projections, we have been bombarded with study after government study trying to convince us that oil and gas supplies have peaked worldwide and domestical-

Two new studies have just added credibility to this thesis. One is a study by Richard Nehring of the Rand Corporation in Santa Monica, Calif. The other is a study prepared for the Senate Foreign Relations Committee by the Congressional Office of Technology Assessment (OTA) titled "World Petroleum Availability: 1980-2000."

The Rand thesis is simple: "The outlook for conventional world oil resources is not promising," Nehring states, adding that "the current high rates of conventional oil production can be sustained at most for another three decades." The OTA report is even more explicit in regard to projected domestic U.S. production: "Based on the reasoning discussed in this section," they piously declare, "OTA estimates that liquid petroleum production will decline from the 1979 average production rate of 10.2 million barrels per day to a level of 7.2 to 8.5

mbd in 1985. In the year 2000, U.S. production could be as low as 4 mbd." They further calculate that primary and secondary recovery from existing U.S. proven reserves "may decrease from approximately 8.1 mbd in 1979 to 4.7 mbd in 1985." This is a pretty alarming prospect which Rep. Morris Udall (D-Ariz.), chairman of OTA's congressional board, and no champion of energy growth, uses to justify a call for "serious and sustained efforts to increase efficiency and cut waste in our use of oil," codeword in liberal jargon for drastic cuts in living standards and industrial growth through energy austerity.

What's wrong with these Cassandra-like doom forecasts? Nothing, if we take the assumptions that lie behind them and make them into law such as people like Udall have done. Namely, if we impose measures such as the Crude Oil Windfall Profits Tax of 1980 which mandate removal, at the wellhead, of \$227.3 billions over the next decade from capital available for further exploration. This will ensure that the substantial increase in exploratory drilling needed to map and exploit potential reserves in this country just will not happen. To make doubly sure, we can add, as Udall and his cronies on the "environmentalist" side of the aisle have done, ridiculous legislative and regulatory restrictions on environmental impact of drilling mud chemicals and the like to add further billions

to the cost of extraction.

I had a recent discussion with a distinguished domestic oil and gas producer, Mr. Jim Russell, of Russell Petroleum out of Abilene, Texas. Russell currently heads the Crude Oil Committee of the Independent Petroleum Association of America, the nation's largest organization of independent producers. When I put the question to him about the potential left to be discovered in this country, he drew my attention to a since-buried report issued by a special study committee of the National Petroleum Council, a blue-ribbon government advisory body. Russell, who served on the committee in the early 1970s, participated in the study, which concluded that "we have probably 300 billion barrels of oil in place in this country that has not been touched to date."

Russell added that without sufficient incentives, such as repeal or substantial amendment of the most destructive impact of the so-called windfall tax, "these reserves will perhaps never be found." He calculates that his own company's net pre-income tax income in 1980 will be down by about 68 percent as a result of the combined impact of the tax and a galloping real inflation of drilling costs of 30 to 40 percent.

President-elect Reagan has appointed a respected geologist, Michel Halbouty of Houston, to head his energy policy task force. We have the opportunity now to take on the challenge of energy development that Russell and thousands like him are eager to pursue. But before we do, we should clean house of the incompetents that have proliferated as government energy analysts in the last decade, whether from OTA, CIA, or Rand.