

## Commodities by Joyce Fredman

### Drama of U.S. oil producers

*Oil prices may soar, but without the rigs, America will be out of business once again.*

**O**il prices have hit record highs over the past few weeks, going as high as \$22 per barrel; but thanks to the "great recovery," American oil men will have limited access to the market. The situation in the Gulf of Mexico is simply the most dramatic in what will become an increasingly common phenomenon: American industry in its death throes.

Even though current offshore drilling activity remains drastically below peak levels of a few years ago, equipment utilization rates have begun to recover from the lows of last year, signaling a "revival" of sorts in offshore oil and gas exploration. At present 48.1% of the Gulf of Mexico fleet is at work, compared with 25.4% a year ago. Contract rates have improved to slightly above break-even cash-costs, but they still remain about 75% below the rates of the early 1980s. Offshore rigs are now in relatively short supply.

The additional problem is that the Interior Department has issued a warning that valuable leases are in danger of expiring for the Gulf of Mexico, because drilling has not taken place within the time period of the lease.

This warning drew attention to a problem that has plagued the oil industry for some time: The dozens of mammoth offshore drilling rigs that have been "stacked," or placed in storage, along the Gulf Coast during the oil industry's severe drilling slump.

Never to be daunted in their optimism, the "great recovery" ideologues have decided that the shortage of active drilling rigs could increase

long-depressed contract rates and thereby provide relief for the pressured contractors. This is actually a potential mechanism to swell business and prod oil companies, through imminent lease deadlines, into action.

The contractors, however, hard-pressed by the depressed rates as well as lack of rigs, have long hoped that oil producers will choose to drill on the hundreds of unexplored leases in the Gulf of Mexico; if not, the leases will expire. About 75 unexplored leases are due to expire at the end of 1987, while an additional 737 will expire in 1988.

The danger of these leases expiring unexplored is not an unwarranted concern. Although a few have been judged to be poor prospects, the majority expire by default. And as to the question of extension of leases by the government to give the contractors a break, William D. Bettenberg, director of the Minerals Management Service, has insisted on a policy of refusing to accept a shortage of drilling rigs as a valid reason to extend the terms of any offshore leases.

"Unnecessary delays in drilling may result in expiration of leases," according to Bettenberg. "The low number of available operating rigs, and the high number of undrilled leases, could result in a shortage of drilling rigs in the near future." The cavalier tone belies the tragedy facing the American economy. Ripple effects will reach supplier industries, bringing the impact down even further on the heads of the American citizens.

Similarly, the Energy Department refuses to consider the fact that a Per-

sian Gulf upheaval could endanger oil supplies. David B. Waller, assistant secretary of energy for international affairs and energy emergencies, said, "I think we're in good shape to respond to a disruption." The calculations upon which this estimate is based do not include oil utilization rates for rapid economic growth, and certainly not for a mobilization-in-depth in case of military emergency.

Yet individual instances of orders are used to perpetuate the myth of a turnaround. On July 31, Varco International, Inc. of Orange, California received seven orders for a \$700,000 piece of drilling hardware from offshore contractors. Because these orders, by bringing to 15 the number of systems sold by them in one month, nearly doubled the number of sales recorded by the company for the second quarter, this was touted by Shearson Lehman Brothers analysts as a definite indication of the turnaround in store for the business.

No one mentioned that the pathetic number for the second quarter was indicative of the crash that has hit the American economy. A one-month "record" has absolutely no significance in this situation.

Another not inconsequential factor, brought about by the international turmoil, is the uncertainty regarding the future of natural gas prices, which haven't climbed nearly as quickly as even the (unpredictable) oil prices. After three years of depressed business, most offshore vendors are hesitant to proclaim any kind of turnaround, particularly in view of the crisis facing the overall economy.

Richard Kerston, vice president of finance for Shearson Lehman's example company, made his caution known: "After what's happened in this industry, we're not eager to predict what the business will do in the future."