

Energy Insider by William Engdahl

World oil: two alternatives

The dramatic economic downturn sharply cut consumption, posing a dilemma for world producers.

Is there a "mini-glut" of world oil today, as media like the *New York Times* and *Wall Street Journal* are declaring? Or is the world economy on the threshold of unraveling in a downward spiral? We should make closer examination of the real relation between energy growth and economic health.

Reliable figures are available showing that worldwide crude oil production dropped almost 5 percent last year to 59.67 million barrels a day. This is the authoritative estimate by the industry publication, *Oil & Gas Journal*. The most dramatic illustration of the deterioration of the world economy that has occurred since the January 1979 ouster of the Shah of Iran is that despite the outbreak of war between Iraq and Iran last year that cut about 4.5 million barrels/day from global output, the loss had little impact on world supplies.

Last September, Chase Manhattan Bank's Energy Economics Department predicted that a prolonged Iran-Iraq conflict "would exhaust the cushion before the end of winter," referring to their estimate of a "normal" world stockpile of some 600 million barrels of oil. That "cushion" represents about 12 days of total world consumption. Six months later, world stocks are still in *relative oversupply*. What has happened?

There is a dangerous tendency in the boardrooms of major corpo-

rations to listen to a peculiar species called "economists." I say peculiar because the predictive track record of these guys, whether at Exxon, Mobil, or Chase, is a scandal.

The latest wisdom circulating among these boys is that the plunge in oil demand is a direct result of "conservation," rather than economic downturn. The shell-game artist who came up with this will probably get a Nobel Prize in Economics. But it hides something far more stupid and self-defeating for the world economy.

There are two opposing philosophies on this issue. One, which I call the "Chase" or "finance peoples'" view, is that so long as you hold market dominance, direct or indirect, you can offset declining sales by jacking up the price.

A case in point is a new report from some economists at Shell Oil in Houston. Their method is simple: incompetence raised to the level of principle. They took trends of the recent months of drastic high U.S. and European money interest rates, combined with a staggering 272+ percent increase in the cost of world energy feedstock as their statistical "norm." Then, they extrapolated from this induced depression to "predict" that U.S. oil consumption will "plateau" in the early 1980s, "bringing to an end the historic trend of increasing consumption." This reminds me of the farmer who mixed larger and larger

amounts of sawdust with the grain he fed to the unsuspecting mare. The strategy worked great—till the horse went and died.

Look at the situation as it is reflected domestically. The latest Department of Energy reports show that oil refineries are at less than 71.9 percent of capacity. In 1978, the average was 86.5 percent. Gross imports of crude and refined petroleum product for March is down 19.8 percent from 1980. Primary stocks of gasoline stood at an all-time high at the end of March of almost 287 million barrels.

For the first time since the early days of the Iran-Iraq war, the domestic price of gasoline fell slightly. Depressed energy consumption is already being reflected in lower quarterly earnings for some integrated oil majors. And much attention has been given to the "record" level of domestic oil and gas drilling activity over the last 15 months.

However, very little drilling to delineate large new petroleum reserves has gone on since the 1950s exodus of the majors to the Middle East. The current boom is only just above levels of 26 years ago. The decline in domestic production has slowed, but substantial new production has yet to occur.

This is an appropriate juncture to pose a production-oriented alternative: if companies such as Exxon and Mobil could see beyond their noses, they would stop paying the Public Broadcasting Service to show provocative anti-Saudi films, and spend that money on an all-out media effort to urge reversal of the Volcker interest-rate policy. I know a score of oil and gas producers who would not hesitate to come down on the expanded-production side of this vital issue.