

OIL WARS: FRACKING, MANIPULATION, AND THE FUTURE OF OUR ENERGY SYSTEM



Manipulation of the petroleum market is not new. John D. Rockefeller with his Standard Oil Trust mastered it between the end of the 19th and start of the 20th Century. Rockefeller and his trust succeeded in controlling virtually all the oil industry in the United States and also dominating the international market. The Standard Oil Trust fixed prices, set production quotas and ruthlessly forced out competitors.

The U.S. Supreme Court in 1911, in the wake of muckraker Ida Tarbell's investigative articles and book on the Standard Oil Trust, utilized the Sherman Antitrust Act to break the trust up into 34 pieces. "For the safety of the Republic," the court declared, "we now decree that this dangerous conspiracy must be ended."

The most prominent corporate offshoots of Standard Oil today are ExxonMobil, Chevron and ConocoPhillips. The 34 were supposed to operate independently but, critics have long held, there's been continued collusion: that the U.S.-dominated oil industry went from being a monopoly to a cartel.

With discoveries of oil in the Middle East in the 1930s and with Standard Oil offshoots deeply involved, the Arabian American Oil Company—Aramco—was created in Saudi Arabia in 1944. In the 1970s, the Saudi government began acquiring more and more of a stake in Aramco, taking over full control in 1980 of what is now called Saudi Aramco.

The Organization of the Petroleum Exporting Countries—OPEC—was formed in 1960 to “coordinate and unify the petroleum policies of its Member Countries and ensure the stabilization of oil markets in order to secure an efficient, economic and regular supply of petroleum to consumers, a steady income to producers and a fair return on capital for those investing in the petroleum industry.” http://www.opec.org/opec_web/en/about_us/23.htm

The senior partner in OPEC, now a 12-nation organization, is Saudi Arabia. This figures considering it has the world's largest proven crude oil reserves at more than 260 billion barrels.

OPEC sets production targets for its member countries. An early and major flexing of OPEC petroleum power, its system of control, came in 1973 with the “oil embargo” or “oil shock” of that year. It was an OPEC effort to punish the U.S. for its support of Israel in the 1973 Yom Kippur War. Other OPEC-induced “oil shocks” have followed.

This historical background brings us to why the price of a barrel of oil has plummeted in half, from a high of \$115 a barrel last June—and why you, as a result, are paying less for a gallon of gasoline at the pump.

The key reason is hydraulic fracturing—or fracking—and OPEC’s move to discourage competition to it from fracking.

In recent years there’s been a revolution in petroleum extraction made possible by a new technique of splitting underground shale formations through hydraulic fracking. This has vastly expanded the gas and oil output of the fracking process.

Fracking is a messy and polluting process. Massive amounts of water and 600 chemicals are shot into the ground under high pressure to release the gas and oil. Especially problematic is the leakage of gas from fracking wells into underground water causing not only serious contamination but the phenomenon of what comes out of a water faucet bursting into flames when touched with a match.

The 2010 film *Gasland*, nominated for an Academy Award, and the subsequent *Gasland Part II*, both written and directed by Josh Fox, documented this fiery aspect of fracking along with the many instances of water pollution and impact on people's health caused by the contamination of water. There is also a major problem of fracking causing earthquakes.

Horizontal fracking in shale formations was first developed with federal government support in the United States starting in the 1980s. It has enabled the U.S. to again become a global giant in petroleum production.

The International Energy Agency last year projected that in 2015, because of fracking, the U.S. would displace Saudi Arabia as the world's largest oil producer.

Fracking, however, is a relatively expensive process—about ten times more costly than the \$5 to \$6 per barrel cost of drilling oil from conventional wells in Saudi Arabia.

By letting the price of oil drop the Saudi-led move has applied substantial financial pressure—so far—on the fracking industry. With the current price per barrel cost at less than \$60 a barrel, fracking has become a problematic undertaking economically. And consequently there have been reductions in and cancellations of numerous fracking operations.

As Alan Greenspan, chairman of the Federal Reserve between 1987 and 2006, put it recently: “At the root of the price collapse was the development in the U.S. of technologies for extracting tight oil, mostly from shale deposits, by horizontal drilling and hydraulic fracturing. This reversed the decline in U.S. oil production.”

“After the oil embargo of the 1970s,” he said, “OPEC wrested oil pricing power from the U.S.” But now, there’s been a “shale technology breakthrough.”

“As a result, the gap between global production and consumption has widened, precipitating a rise in U.S. and world inventories, and a fall in prices. Saudi Arabia, confronted with an oil supply glut but not wishing to lose market share, abandoned its leadership role as global swing producer and refused to cut production to support prices.”

Explains Jamie Webster, an oil market analyst at HIS Energy in Washington, D.C.:

“The faster you bring the price down, the quicker you will have a response from U.S. [fracking] production—that is the expectation and the hope. I cannot recall a time when several [OPEC] members were actively pushing the price down in both word and deed.”

There are other factors, too.

The plunging price of oil has impacted severely on Russia causing some analysts to see collusion between the U.S. and Saudi Arabia to hurt the Putin regime in Russia—and some have extended this to seeing such a conspiracy as also being aimed at major oil producers Iran and Venezuela, too.

Russian President Vladimir Putin himself has raised this prospect declaring in December: “We all see the lowering of the oil price. There’s lots of talk about what’s causing it. Could it be the agreement between the U.S. and Saudi Arabia to punish Iran and affect the economies of Russia and Venezuela? It could.”

A few days later, Venezuela’s President Nicholas Maduro charged: “Did you know there’s an oil war. And the war has an objective: to destroy Russia. It’s a strategically planned war...also aimed at Venezuela, to try and destroy our revolution and cause an economic collapse.”

In the U.S., Martin Katusa, chief energy investment strategist at Casey Research in Vermont, believes, “It’s a three-way oil war between OPEC, Russia and North American shale.”

Is a Saudi Arabian assault on the clean-energy movement a factor, too?

“Now energy experts are seeing evidence that the oil bust is helping Saudi Arabia achieve another long-term goal: undermining global efforts to reduce dependence

on fossil fuels,” wrote Joby Warrick, environmental reporter for The Washington Post recently.

Among those seeing this is Durwood Zaelke, president of the Institute for Governance & Sustainable Development (IGSD) in Washington. “If a period of low prices gets consumers hooked on cheap gas and inefficient cars, that sustains their market,” he said.

In fact, with the sharp decrease in the price of gasoline, sales of SUVs and other low-efficiency vehicles has been rising. This past November was the best month for SUV sales since 2001, according to Autodata.

Still, Ken Johnson, vice president of communications for the Solar Energy Industries Association in Washington told me: “We have not seen any direct link between the price of oil and the development of solar projects nationwide, which remains quite strong.”

Meanwhile, there’s the question of how low the price of a barrel of oil can get and frackers still making it economically with the price a barrel below what’s been their “break-even” price of \$70.

Dan K. Eberhart, CEO of Canary, a Colorado-based drilling services company, says “U.S. producers are getting better and more economical” and the

price to frack is falling, and this is “going to help U.S. producers stay competitive in the worldwide oil market.”

Katusa of Casey Research says “the versatility and survivability of a lot of these shale producers will surprise people. I don’t see that the shale sector is going to collapse overnight.”

The fracking industry nevertheless is being hurt badly. “The shale oil revolution is in danger,” was the headline in Fortune.

“The recent drop in oil prices poses a major challenge to the frackers. But oil producers, Wall Street analysts, and most industry experts claim the setback will be brief and minor. Don’t believe them,” the article continued. “The basic economics of fracking—what it costs to drill versus what oil now sells for—spells big trouble for the shale boom.”

As the Daily Kos headlined its piece on the matter: “97% of fracking now operating at loss at current oil prices.”

Then there’s the issue of how long the U.S. shale boom can last. Fracked wells don’t last long. The International Energy Agency in its 2014 World Energy Outlook projects that as a result, fracking-dominated petroleum production in the

U.S. “levels off in the early 2020s and its total production eventually starts to fall back.”

Further, “proved reserves” for petroleum from shale is about 10 billion barrels, according to the U.S. Department Energy, a small fraction of the reserves in the Middle East.

Then there’s the big question of whether oil—from fracking or conventional drilling in the Middle East—can compete with the windfall in renewable energy technologies.

A report recently done for the National Bank of Abu Dhabi by the University of Cambridge and Price WaterhouseCoopers, titled “Financing the Future of Energy,” declares: “The energy system of the past will not be the same as the energy system of the future. It is clear that renewables will be an established and significant part of the future energy mix, in the region and globally.”

“The sharp fall in the oil price in 2014 has raised the question of whether the trend towards a more integrated energy mix and the growth of renewables will continue, or be stalled by more affordable oil and gas,” says the report. “There are strong reasons to believe it will continue.”

Solar photovoltaic power and wind energy have “already a track record of successful deployment. Prices have fallen dramatically in the past few years: solar PV falling by 80 per cent in six years, and on-shore wind by 40 per cent. The speed of this shift towards grid parity with fossil fuels means that, in many instances, perceptions of the role of renewables in the energy mix have not caught up with reality.”

The report notes the bid of the Dubai Electricity and Water Authority in December 2014 to build a 200 megawatt solar photovoltaic facility in Dubai “set a new world benchmark for utility scale solar PV costs, showing that photovoltaic technologies are competitive today with oil at US\$10/barrel.”

The report goes on that “solar is on track to achieve grid parity in 80 percent of countries within the next two years, so cost is no longer a reason not to proceed with renewables.”

There have been numerous reports in recent years mirroring this analysis.

Source: <http://www.commondreams.org/views/2015/05/03/oil-wars-fracking-manipulation-and-future-our-energy-system>