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Foreign Oil Imports: the Danger to The American Light Tight Oil Revolution And National Security

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www.panimportreduction.org

By Dr. Daniel I. Fine

Advisor and Associate Director
Of Research and Policy

Introduction

This is a reaction to the current situation that threatens the national security of the United States which once again, since 2010, rests on domestic oil and natural gas. Potential crude oil import supply interruptions, denials or cut-offs, which drove national oil policy since the mid-1970's, are no longer strategic threats.

They have been overtaken since 2014 by a new reality of premature, non-free trade disruptions through hostile price wars and preemptive market share actions by OPEC and Saudi Arabia. This is a strategic threat to American light tight oil revolutionary technology of recovery of petroleum from shale source rock.

The intent of OPEC is to indirectly prevent American self-sufficiency in oil by liquidating or slowing down American light tight oil producers across the Panhandles of Texas and Oklahoma, West Texas, New Mexico, Colorado and North Dakota.

This is the basis of the threat in current terms while the technology breakthrough establishing American self-sufficiency has yet to be recognized as a national security consideration. It remains subordinated as a subtext of a national energy policy which aligns with climate change objectives against fossil fuel expansion.

The Panhandle Initiative returns to the premises of national security over 55 years ago in the administration of President Eisenhower. The Cold War had then caused overseas American oil industry vulnerability to, and the risk of, foreign oil supply disruption. During the 1950's the American industry expanded its global reserves and operations outside the U. S. and mainly in the Middle East to obtain concessions of low-cost oil which could not be obtained in domestic exploration and production.

The Cold War and its global impact on security of oil supply from the Middle East and Northern Africa was recognized in terms of supply security of this imported flow of oil imports through ocean transport from hostile entities.

Consequently, an import quota, at first voluntary and later mandatory, was proclaimed by President Eisenhower (Proclamation 3279) in 1959 "adjusting imports of petroleum and petroleum productions into the United States". Imports were fixed at 10% and 12% of annual domestic demand for crude oil.

The argument for import quotas was mainly confronted by opposition based on the prospect of decreasing reserves and higher prices. However, at the end of the Eisenhower import quotas (a consequence of the OPEC supply embargo in 1973-74) there was no evidence of notable price changes and lower oil reserves. American domestic oil investment in exploration and production experienced sustainable growth. Domestic oil production increased by 38%.

In current conditions, light tight oil or shale-sourced oil reserves (economic and technical recovery) has reached over 275 billion barrels exceeding Saudi Arabia, Iran and Iraq according to a research report from Norway. There is no basis for a national reserve depletion vulnerability from import quotas today or in the remainder of most of this century.

American production in the early 1970's reached an all-time high in 2014-15. Import quotas lasted 14 years, until abandoned under supply disruption and world price escalation by the OPEC oil cartel. They were highly successful in accomplishing the Eisenhower national security objective of sustaining a domestic oil industry.

The current situation in the petroleum industry of the United States is radically different. With Saudi Arabia and OPEC no longer managing their production as a cartel in opposition to free trade that supported a higher world price environment, American producers are subject to a market share price war. Saudi Arabia-OPEC is production oil "at will" to win market share through lower prices. From over $100 per barrel, both Brent and West Texas Intermediate have declined below financial crash of 2008 levels and partly recovered (mid-2016) because of changing supply perceptions in financial services (speculative activity).

Imports are rising at an 8% rate per year while U. S. crude oil production is falling at the same estimated rate. Imports of foreign oil have reached 8.2 million barrels per day (a four-week average at mid-year 2016) while domestic production has dropped 800,000 barrels a day which is equivalent to the rise of imports. In short, foreign oil imports are displacing domestic production almost barrel per barrel.

While the domestic oil "technology play" requires higher costs from drilling to the completion of wells when compared to Saudi Arabia, it nonetheless can reduce imports of foreign oil valued at over $65 billion a year in foreign trade (cost since 2014). The elimination of this transfer of wealth to foreign oil producers from the U. S. economy has been one of the highest priorities of national energy policies since the 1970's.

So far in 2016 this has become a stalemate with OPEC raising production while American producers resist lower production through efficiency and renegotiated service costs. With an estimated cut back in U. S. output for 2016 of 800,000 barrels per day, the world is still far oversupplied. For every barrel contraction in the U. S., Saudi-OPEC produces the equivalent as part of the strategy of expansion of market share.

Imports of oil primarily from OPEC increase as American investment and output decline because of lower-than-breakeven prices, financial credit line restrictions, debt servicing and the consequences of negative cash flow (oil producing communities falling in "bust" conditions).

If, as President Eisenhower's Proclamation nearly 60 years ago aligned national security with the preservation of a vigorous, healthy petroleum industry in the United States", then the impact of the current price war with OPEC over market share is a threat that requires a foreign oil import quota policy revival as one policy tool to lower the volume. It is a foreign oil over-supply disruption in contrast to under-supply or supply disruption of oil imports to the U.S.

A strategic policy option is that there is still an imbalance between foreign oil imports and domestic production now at historically high levels of ultimate recovery. The OPEC price war objective is to lower prices so that unproved economic and technically recoverable light crude oil is not developed into proven reserves. This denies the United States of its potential to transition its resources into production and self-sufficiency. It reestablished the pre-2008 conditions of import dependency on foreign oil.

Such regression involves the cost and risk of new military power projection to protect the "world flow oil" and hybrid war fighting from ISIS or non-state actors. Is the American public reconciled to the uncertainty and scope of this mission? Are the military services, notably the Navy, internally motivated?

The solution calls for a new "proclamation of adjustment" that requires action in one crude oil category as a phase one executive action. Saudi Arabian-OPEC crude oil exports to the United States of light crude and medium light crude have reached 810,000 barrels per day with 660,000 barrels of light (API gravity between 35.1 and 45.10) alone in 2014-2015.

<u>Action Proposed</u>

Phase One: (within 90 days as an adjustment period for American refiners) a light oil import quota of zero would be mandated by presidential proclamation through executive order issued no later than 30 days after the official beginning of a new presidents terms of office in 2017.