

In My Opinion

The U.S. Senate's Oil Spill

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CALGARY, CANADA - Last week at the joint hearing of the U.S. Senate Committees on Energy and Natural Resources and Commerce, Science and Transportation, one side was arguing the forest, the other the trees.

On one side, five "big oil" company executives gave global perspectives on high oil prices and defended their corporate profitability. On the other, a handful of outraged state attorneys general fumed and sued over price gouging by local gasoline stations.

Taking sides in the debate is easy. Stepping back and proactively dealing with the seriousness of the nation's long-term energy issues is much more difficult and even harrowing when one considers the full picture.

At such a critical juncture in the world's energy balance, the antagonism being created between big oil and the public serves little purpose in America. Whether or not you agree with how much profit big oil companies are making, beating them up is not a formula for solving the world's oil-supply issues, mitigating U.S. dependency on foreign supplies, and bringing down domestic gasoline prices.

And if you believe these issues have been solved in the past few weeks just because hurricane season is over and a few more people have chosen to buy hybrid cars instead of SUVs, think again. The truth is, we are in a transitional period in the history of the world's energy evolution, which encompasses relentlessly rising demand, tightening supplies, simmering geopolitics, troubling environmental issues and growing intolerance to new infrastructure, among the many forces that are stressing our vast petroleum complex.

At last week's joint hearing, politicians and the media zeroed in on third-quarter mega-profits posted by mammoth, publicly traded oil companies--collectively, tens of billions of dollars in three short months. Surprisingly, this has to be one of the few occasions in a capitalist, free-market democracy where stellar corporate performance was not accompanied by cheers and backslapping. Just the contrary: Egged on by the public, there was a chorus of charges accusing these oil companies of profiteering and price gouging at the expense of the public. All the more galling was the fact that it was happening at a time of national distress caused by the wrath of the recent hurricanes.

Beyond dealing with localized price gouging, which is understandable, a few government officials are blowing the horn and looking for Robin Hood to come out and take money from the rich oil companies in the form of a windfall profit tax, and give it to those who can't afford to heat their homes and start their cars.

Sounds good on paper, but isn't that what President Hugo Chavez does through state control of Venezuela's oil industry? There are also calls out to force oil companies to reinvest their profits into badly needed supply infrastructure like refineries. Yet it sounds suspiciously similar to the way that state-run oil companies in Russia and China make their investment decisions. Does the U.S. really want to head toward nationalization of oil? Once upon a time, back in May 1920, U.S. Sen. James Phelan of California tried to form what was to be an American state-owned oil company called the United States Oil Corp. The resolution was defeated when the free market trumped state control.

Defending their case at the hearing were five oil company executives. Four of them--**ExxonMobil** (nyse: [XOM](#) - news - people), **Shell** (nyse: [RDSA](#) - news - people), **BP** (nyse: [BP](#) - news - people) and **Chevron** (nyse: [CVX](#) - news - people)--trace their pedigree back to the storied "Seven Sisters," the oil giants that helped shape the global oil industry into what it is today. And it was the American-based Sisters that historically carried the torch for U.S. national interests and economic power by scrambling around the globe, challenging global powers like the British Empire and securing coveted oil reserves.

Times have changed. Today, the Sisters are aging grandmothers competing against big, strong, aggressive, state-controlled oil companies from many more countries--China, India, Japan and Russia--to name a few. When CEO **Lee Raymond** said last week that ExxonMobil has 86,000 employees and a market capitalization of \$350 billion, it sounded impressive enough, but on a global scale the company he leads doesn't even rank in the top ten oil companies in the world when it comes to petroleum reserves.

All the players, large and small, are jockeying for the last of the lucrative oil concessions on this planet. One unspoken reason why those big oil company profits are not being reinvested back into the ground is because it has become exceptionally competitive and costly in the world arena today. Often now, the big oil defendants at last week's hearings are no longer dominant in their ability to acquire new oil reserves and production as they used to in the glory days of the past.

Take a look at the statistics: American-based oil companies produced 45% of foreign oil in the 1950s, but that share has dropped to about 10% today. American dependence on imports has grown from 10% in 1970 to 65% by the end of 2004. At the current rate of unchecked import growth, Americans will be 70% to 75% reliant on foreign oil by the middle of the next decade. In short, the U.S. is now more dependent on oil, and less secure in its supply, than at any time in the 145-year history of oil consumption.

Let's put things into perspective: No one condones localized price gouging (and frankly the oil executives' testimony last week was mostly insensitive to that problem). But we must all understand that much larger dynamics are at play around the world and ask ourselves if this is really the issue that should be forcing front-page debate in the nation.

An important but narrow argument at the hearings came from Terry Goddard, attorney general from Arizona. Alarmed by the lack of strategic reinvestment by oil companies, he told the panel that in the U.S. "the entire oil industry has moved to a just-in-time delivery system.... The effect is a constant and precarious supply/demand balancing act...very harmful to consumers as supply vulnerability sets the stage for price spikes."

Unfortunately, this is the reality in the world of oil today, no matter where you are on the planet. As we all collectively drain the equivalent of an Olympic sized swimming pool full of oil every 15 seconds, just-in-time oil is a theme that spans all nations, not just the U.S.

At the hearings, politicians and government officials were at the sidelines taking notes, asking questions, doing everything to indicate they are mad as hell. But really, does making a spectacle of this debate solve the much bigger issues at hand?

Politicians are going to have their hands full in the coming years trying to give the public cheap, clean and secure energy that seems to be in endless demand. People are insisting that the energy infrastructure be discreet too, and "not in my backyard."

To overcome these nearly insurmountable challenges, the government should move away from creating an ugly spiral of finger-pointing that takes us further away from what we all need most, and move instead toward creating proactive solutions for cheaper, cleaner and more secure energy.

Lee Raymond summed up it up the best: "We need to have better communication and work more closely in a transparent way with key stakeholders--governments and consumers." Indeed, it is time for all parties to realize that the forest and the trees are one and the same.

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