Click here for Full Issue of EIR Volume 26, Number 2, January 8, 1999

The global financial crisis reaches the Texas 'oil patch'

by Brian Lantz

Well-informed people have known, what yahoos only guessed at: that the price of oil has been, throughout the 20th century, rigged. Witness the role of Henry A. Kissinger, and the London-centered "Seven Sisters" oil cartel, in orchestrating the oil price hoaxes of the 1970s. Now, however, with the world economy disintegrating, we see that oil and gas prices are also subject to *reality*. Driven by the ongoing collapse of the world's physical economy, the price of oil is moving steadily downward, despite all contravening efforts. From an average price of $22 per barrel in 1996, and $20.50 per barrel in 1997, oil is now headed well below $10 per barrel. "Operation Desert Fox" only spiked oil prices upwards for a matter of hours, which then dropped back when it turned out that Iraqi oil fields were a politically unacceptable target. It is therefore to be anticipated, with oil prices for 1998 expected to average $14.50 per barrel or less, that the Texas "oil patch" will be reeling.

In a sober analysis in the Dec. 6 *Houston Chronicle,* two private-sector oil industry figures, Mark Harrington, the former CEO of an independent energy company who now heads "an investment concern," and Alan Gaines, who co-founded a brokerage house dealing in global energy markets, wrote that the Texas oil industry is, again, facing disaster. Under the title "Hard Times for Houston," with the kicker "Another '86-Style Depression in the Offing for the Oil Patch—Maybe Worse," they warn that with the mergers and "bankruptcies/restructurings" already under way, the loss of Houston jobs "could swell to a multiple of 10,000." Only weeks earlier, Houston boosters, including the circles of George Bush, described the city as enjoying its most sustained growth ever, due primarily to globalization and the North American Free Trade Agreement (NAFTA).

Mergers and layoffs

Already in August and September, multibillion-dollar acquisitions in the energy service sector were closed in Houston, with Halliburton acquiring Dresser Industries ($6.1 billion), Baker Hughes acquiring Western Atlas ($4.7 billion), and Schlumberger acquiring Camco International ($3.1 billion). Global Marine, the largest U.S. oil-drilling contractor, has since announced that it is "aggressively seeking merger partners." "We are talking to anybody who wants to talk," said CEO Robert Rose.

Waves of layoffs are under way—in the international companies, the independents, the machine shops, among suppliers, and down to the "hotshots" and land men. Among recent developments in the Texas oil patch, Seagull Energy Corp. and Ocean Energy Corp., with combined equity capitalization of $2 billion, have agreed to merge, due to the "uncertain pricing environment." One-third of the merged workforce of 1,200 will be laid off. In Houston, the British Petroleum takeover of Amoco is reported by employees to be laying off 800 white-collar jobs locally. Of course, mergers are not the only cause of layoffs. Wells are being "shut-in," and capital expenditures curtailed. The future is already the present in the West Texas oil fields, where independents dominate. There, two-thirds of the oil field workers have been laid off, in just the last 12 months.

Layoffs have been ongoing for months in the "upstream" refining and petro-chemical industries, under the guise of rationalization and cost-cutting. While recent layoff figures for the U.S. refining industry are not available, the U.S. Department of Labor reports that total U.S. refining jobs have been reduced by 11% over the past three years, to 91,800, down from 103,000. Now, companies, and their refinery workers are worried because new capacity is coming on line, just as demand slumps.

'Globalism' has failed

The "Baker Hughes U.S. rig count," a key indicator of oil and gas activity and a strong measure of the health of the U.S. domestic oil industry, at the end of November 1998, said that the rig count was down 34%, from 1,014 rigs a year ago. Only 70 oil rigs are now operating in West Texas, compared to the 220-250 that were reported as operating at the beginning of 1998. West Texas intermediate crude petroleum prices have recently set new lows, in the $11 per barrel range. Local oil production company officials, including Mike Varnadore, president of Silver Oil and Gas, were quoted in the Dec. 5 *San Angelo Standard-Times*. "This here drop is having a crippling effect on everyone," said Varnadore. "Those people out in the field are losing money, producers are losing money, even landowners are losing money on royalties they would receive for the oil. When things get this bad, everyone suffers. People tighten their budgets and quit spending, which hurts the whole area." The *San Angelo Standard Times* reports talk among

© 1999 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

This 1973 picture shows the Houston Ship Channel Bridge, spanning a heavily industrialized area. The channel gives Houston access to the Gulf of Mexico. Now, with the collapse of the oil price, the economy of Texas faces devastation.

the independent producers, of the need for tariffs to restrict foreign oil imports.

In the mid-1980s, during the last oil patch blow-out, *EIR* Founder Lyndon LaRouche called for a floor to be put under the price of domestic oil, through a tariff on cheaper oil imports. He warned that the cult of deregulation was destroying the economy. Others, notably including then-Texas Gov. Mark White and Sen. Lloyd Bentsen (D), also called for an oil-import tariff. However, opponents of regulation carried the day, arguing that the entrepreneurial spirit just had to be given free rein. "Free trade" in the global market, through the General Agreement on Tariffs and Trade and later NAFTA, would bring prosperity to all, they said. It is LaRouche, not the ideologues, who has been proven to be correct.

Port activity declines with oil

Houston is one of the largest ports in the United States, due to the value and tonnage of petroleum and petroleum products, servicing the global petroleum industry. Here again, the Texas-based oil and energy service companies have been hit by the effects of collapsing petroleum demand. Foreign drilling is winding down, effecting the large number of Houston-based manufacturing companies which supply the oil industry. In Ibero-America, oil rig activity has dropped to 209 by October, from 279 at the same time last year, according to Baker Hughes. Venezuela has been the hardest hit, dropping to 62 rigs from 106 last year.

In the last decade, U.S. trade with Ibero-America did expand, in the context of NAFTA and globalization, as a "wildcat" phenomenon. Now that the speculators have taken their toll, that trade is contracting. In the first half of 1998, U.S. Census Bureau statistics show that exports to Ibero-America through all Texas ports increased by only 5% in the first half of the year, compared to a 23% increase in the same period of 1997. This slow-down closely paralleled the decline in exports through all U.S. ports to Ibero-America, for the same period. Total Texas exports to Colombia have fallen 22.9%; Venezuela, 5.9%; and Brazil, 0.3%, for the first three quarters of 1998.

For the Port of Houston, the biggest single factor in declining exports is Venezuela, the port's third-largest customer after Mexico and Canada. Venezuela was touted as the projected growth area for oil and gas companies for years to come, due to the *apertura,* or opening of the Venezuelan energy sector to international exploration companies. In 1997, some 15.2 million tons of petroleum, as well as steel, aluminum, and iron products, passed through the Port of Houston, from Venezuela. In return, $1.5 billion in equipment for the oil and mining industries sailed from the Port of Houston to Venezuela. Now, equipment and supply sales to the oil, gas, and mining industries in Venezuela have nose-dived. Freight forwarders and shipping companies in Houston have reported a halving of outgoing exports. During 1998, there has been a 30-44% collapse in Venezuelan exports and imports with the United States. Port of Houston-based shipping companies have seen trade with the region drop by as much

as 40% in both their exports and imports, to and from key Ibero-American nations, with ships now leaving the port half-full.

These anecdotal and statistical reports reflect the grim truth of the worldwide collapse of the physical economy. Total Texas exports to mainland China have dropped 41.4%; Japan, 16.9%; the Republic of Korea, 39.3%; Russia, 25.5%; and Kuwait, 40.9%, compared to 1997 figures for January-October. Only *temporary* continued growth in Texas exports to Mexico, by 18.7%, prevented Texas export figures, measured in dollar value, from going negative for January-October 1998. Mexico import figures will soon reflect the collapse of Mexico's oil revenues.

A New Bretton Woods system

The *Houston Chronicle* cites new factors, that didn't exist in 1986, compounding problems in the Texas oil patch. These include:

- The "meltdown" of so-called lesser developed nations and the resulting collapse of energy consumption growth in Asia, which may take years to reverse. Asia had been projected to account for almost all world growth in petroleum utilization over the next decade.
- "Just-in-time" inventory management by integrated oil companies means that the current 4 million barrel "glut" in world oil supplies is equivalent to the 14 million barrel "glut" that existed in 1986. It will not go away soon. The authors do throw in the caveat that just-in-time management also means volatility in pricing, if market conditions change.
- The independent oil industry has been hit by "poor bottom-line results" from the new technologies of 3-D seismic and horizontal drilling, which "has hardened capital markets to further investment." These technologies were expected to increase yields from existing fields, but not at market prices of $11 per barrel, or lower. The independents are now up the creek without new sources of capital, as is seen in West Texas.
- Natural gas is even now overpriced, as against middle-distillate refined oil products which have significantly lower BTU costs. Natural gas prices could go to $1.40 per 1,000 cubic feet, "even with a severe winter." Therefore, investors and speculators in natural gas are not going to have a safe-haven from the crisis in the oil patch.

The *Houston Chronicle* article appeared against the backdrop of numerous high-level energy industry confabs, including in Tulsa, Houston, New York, and London. Those conferences are continuing, under increasingly desperate, volatile circumstances. Without Lyndon LaRouche's "New Bretton Woods," including re-regulation of markets, tariffs, and a global financial reorganization, real demand for oil and petroleum products will continue to fall, which in turn will accelerate the downward plunge of the whole economy.

LAROUCHE ON
THE NEW BRETTON WOODS

"The present fatally ill global financial and monetary system must be radically reorganized. It can not be reformed, it must be reorganized. This must be done in the manner of a reorganization in bankruptcy, conducted under the authority not of international institutions, but of sovereign governments."

A 90-minute videotape with excerpts from a speech by Lyndon H. LaRouche, Jr. given on March 18, 1998.

$35 postpaid
Order number EIE 98-002

EIRNewsService
P.O. Box 17390,
Washington, D.C.
20041-0390

To order, call
1-888-EIR-3258
(toll-free).

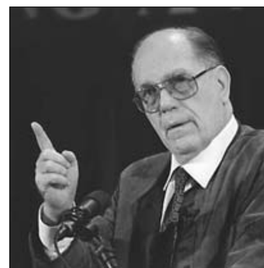
We accept Visa or MasterCard.

THE WORLD FINANCIAL COLLAPSE
LAROUCHE WAS RIGHT!
An EIR Video

What does Indonesia's Minister of Economy, Finance and Industry, Ginandjar Kartasasmita, know about the global financial crisis that you don't?

Here's what the Far Eastern Economic Review reported July 23:

"It seems the IMF isn't the only organization supplying economic advice to the Jakarta government. . . . [Reporters] were surprised to spot, among [Ginandjar's] papers, a video entitled, 'The World Financial Collapse: LaRouche was Right.' Lyndon LaRouche . . . has been arguing for years that the world's financial system was on the brink of collapse due to unfettered growth in speculative funds; he says now that the Asian crisis is just the beginning. . . ."



Order number EIE 98-005 $25 postpaid.

EIR News Service P.O. Box 17390 Washington, D.C. 20041-0390 To order, call 1-888-EIR-3258 (toll-free)
We accept Visa or MasterCard