

Fracking—A Stupid Move By the ‘Global Players’

by Andrea Andromidas

In July 2014, the Bank of America circulated a report which stated: “With the delivery of 11.6 million barrels of crude oil and liquefied natural gas, the United States of America has exceeded, by a small margin, Saudi Arabia’s production level.”

While domestic passions, intoxicated by this momentary snapshot, based on the long-sought dream of making America into the geopolitically dominant raw-materials supplier had been fulfilled, taking stock of the real economy can lead to no other conclusion than that this presumed high-altitude flight will be followed by a steady, or even an abrupt fall.

In fact, what is happening to American energy policy, very much like the German exit from nuclear power, is a radical departure from the principle of security and economic viability, in favor of a gigantic inflation of financial market profits. The current low price of energy should not distract anyone from the fact that the Pickens Plan (2008),¹ including the so-called “fracking revolution,” is saddled with the same fatal problems of inefficiency as is the German exit from nuclear.

In Germany, too, the public was deceived with false optimism about the large quantities of electricity to come from solar and wind technology. These promises were overshadowed a long time ago by gigantic price increases, and the suspicion, even dawning on Energy Minister Sigmar Gabriel, that this insane undertaking is ultimately so uneconomical that it may crash the entire industry into a brick wall.

Setting a False Course

An industrial nation like the United States must essentially do what was normal policy until the middle of the 1970s: While perfecting the current nuclear fission technology, at the same time, investing in the future

technology which offers a fundamentally higher energy-flux density, which today would be nuclear fusion. That is the way China and other Asian nations are going. But, already in 1977, the Carter Administration put on the brakes by giving up, step by step, the planned investments in the already promising fusion technology, until only a sad residue remains today.

Fortunately, in spite of this, at least the current inventory of about 100 nuclear plants in the United States is not put in question, and five more are in the process of construction. Moreover, since an exit from nuclear power is not anticipated, at least an escape route remains open for the case that the present [fracking] policy fails.

Nevertheless, instead of investing in the future, America, since 2001, has been tinkering with the plan of T. Boone Pickens, publicized seven years later, which, not unlike the German “energy revolution,” represents a return to the energy-flux densities of the Middle Ages, with wind and solar. What remains generally hidden in all the press hype on the subject of “fracking,” is the fact that this so-called fracking revolution is only the gateway to a “green economy,” with its own financial market swindles and similarly lunatic geostrategic plans.

Dangerous Miscalculations

In contrast to the usual methods of recovery of fossil fuels, the technique called hydraulic fracturing, or “fracking,” is promoted as enabling the exploitation of difficult-to-access reserves of oil and gas. In order to be able to exploit these resources under difficult conditions, a correspondingly higher expenditure is necessary, which is inevitably associated with a price increase. Thus, this does not involve a future technology, but rather one which makes exploitation possible for a certain period, or under certain circumstances, but is burdened from the start by the problem of inefficiency. As we will see below, the real interest of the “green economy” lobby does not lie in the technology as such, but in the shift of economic weighting in the direction of financial market operations,

1. Thomas Boone Pickens runs the hedge fund BP Capital Management, and is among the richest investors in the oil and gas business, and financed the election campaigns of George W. Bush.

even if it destroys important parts of the real economy.

The course was set in this direction when President George W. Bush formed the National Energy Policy Development Group (NEPDG) at the start of Bush's first term in 2001; it was later usually called the Energy Task Force. Under the leadership of Vice President Dick Cheney, and excluding any public input, lobbyists of the biggest energy companies, including Enron, ExxonMobil, Conoco, Royal Dutch Shell, BP Oil, et al., planned "a new energy future for America." Its meetings took place in the White House.

With the Energy Policy Act of 2005, during Bush's second term, there appeared a couple of legal amendments to smooth the way to this new future, including subsidies and tax incentives for investments in all kinds of alternative energy technologies, as well as regulations setting the proportion of biofuels required in gasoline. In order not to come in conflict later on with environmental regulations, it was already ensured in 2005 that everything associated with fracking technology would be excluded from the Safe Drinking Water Act of 1974.

But all of that was still not sufficient to guarantee profitability to the financial markets. For that, it was necessary to repeal the regulations stemming from the experience of the 1929 Crash and the subsequent Great Depression. The repeal without replacement of the Public Utility Holding Company Act (PUHCA) of 1935,² in 2005, was followed in 2010 by a change of still more serious consequences in the Securities and Exchange Commission (SEC), as we will see in a moment.

To be able to understand the full dimension of this change, one must first look at the problem of the inefficiency associated with "fracking," which is not a new discovery. It was determined already in 2004 that a drill hole (Robert Heuer 1-17R), located in the Bakken Shale Basin in North Dakota, did indeed, at the beginning, lift



Fracking, or hydraulic fracturing, is not only a blight on the landscape, it is a huge scam, aimed at fattening the coffers of the highly leveraged banks, and worse, take energy levels back a millennium to the Middle Ages. This is a fracking site in the Lehigh Valley, Pa.

an impressive 2,358 barrels in a single month, but that that level sank by 69% in the year that followed.

Other, later, spectacular holes, such as Serenity 1-3H of Chesapeake Oil in the vicinity of Oklahoma City, confirmed this trend. In 2009, some 1,200 barrels a day were lifted there; three years later, it was just 100. At least we had received an early warning that we had to deal with the short lifetime of the sources, in distinction to conventional exploitation of gas and oil. It was in stark contrast to Saudi Arabian fields, for example, where the Ghawar Field, which has been producing since 1951, has lost some production, but still pumps 5 million barrels a day.

The fact that we have to contend with the extremely short lifetimes of the fracking sources means, above all, that exploitation can only be maintained by the constant drilling of new hole. According to an estimate by Global Sustainability Research, 6,000 new holes must be drilled annually in the United States, with an investment expenditure of \$35 billion. It was also known that drill holes lying immediately next to one another were not necessarily equally good, but could show enormous differences in yield. It has sometimes proved to be the case that just 20% of the holes drilled in a field met economic expectations, and sometimes, even less than 10%.

But since any orientation to real economic considerations has long since ceased to be controlling, these facts were swept aside.

2. This law was enacted in 1935 to prevent holding companies which were responsible for public energy supplies, from again diving into speculative transactions.

Nature: Study Sees Fracking Fall-Off

A study by University of Texas researchers, reported in *Nature* Dec. 3, foresees less shale oil and gas in America's future than promised in all the industry's projections.

The article by Mason Inman says that the Texas researchers have produced the most authoritative study of the U.S. "shale revolution" to date, by analyzing figures from individual blocks in the shale basins, at 20 times as high a resolution as the Energy Information Agency (EIA), which uses data by county.

The researchers analyzed four big shale gas fields, or "plays," which account for two-thirds of current U.S. shale gas production: Marcellus (in Pennsylvania), Haynesville (Texas/Louisiana), Fayette (Arkansas), and Barnett (Texas). They con-

cluded that natural gas production from these four fields would likely peak by 2020 (just five years away) at about 250 billion cubic meters of gas per year—some 10% higher than it is now—and fall by 2030 to 150 billion cubic meters annually.

By contrast, the EIA has consistently forecast shale gas production doubling by 2040, including 325 million cubic meters being recovered from the above four fields by that year. Several industry projections, including one by Goldman Sach, are far higher still, and have been the basis for extremely high and leveraged investments in shale "plays"—approximately 25% of all U.S. capital investment since 2010.

The argument already raised against the University of Texas study is that it does not assume continuing technological advance in shale fossil fuel recovery. But this is technological "advance" which makes such recovery more expensive, unstable, and environmentally degrading than the previous technology.

—Paul Gallagher

The Gold Rush Re-enacted

The change in orientation to speculative financial market operations had been long desired on Wall Street, and had been underway for at least two decades. But for a long time, the regulations of the supervisory agency for the exchanges, set up under Franklin Roosevelt in parallel to the Glass-Steagall Act, were in the way. These strict regulations with which FDR had driven out of the real economy the speculative activities that caused the market crash of 1929, were no longer desired. Much more under the pressure of the finance lobby, and less under that of industry, as is claimed, the SEC, since the end of 2008, worked on changing the regulations for exchange-listed firms in the oil and gas industry.

Prior to this change, these firms could only count ownership of those reserves whose future yield was geologically estimated as secure, and which were in the immediate vicinity of already existing wells. But the new rule made it possible to include in the reports to investors, wide-ranging fields on the basis of their presumed future yield, and expert testing of this by a third party was no longer demanded. The new rule took effect in January 2010, under the heading "Modernization of Oil and Gas Reporting," which read:

"The Commission is adopting revisions to its oil and gas reporting disclosures which exist in their cur-

rent form in Regulation S-K and Regulation S-X under the Securities Act of 1933 and the Securities Exchange Act of 1934, as well as Industry Guide 1. The revisions are intended to provide investors with a more meaningful and comprehensive understanding of oil and gas reserves, which should help investors evaluate the relative value of oil and gas companies.

"In the three decades that have passed since adoption of these disclosure items, there have been significant changes in the oil and gas industry. The amendments are designed to modernize and update the oil and gas disclosure requirements to align them with current practices and changes in technology. The amendments concurrently align the full cost accounting rules with the revised disclosures. The amendments also codify and revise Industry Guide 2 in Regulation S-K. In addition, they harmonize oil and gas disclosures by foreign private issuers with the disclosures of domestic issuers."³

Since the introduction of the reporting requirement in the framework of the Carbon Disclosure Project,⁴

3. "Securities and Exchange Commission, Modernization of the Reporting Requirements for Oil and Gas Companies," Jan. 1, 2010.

4. The Carbon Disclosure Project was founded in 2000 in London, and is now backed by 655 investors. It has exchange-listed companies report to it once a year on the state of their CO₂ and water "footprint." This is used to value and sell options on the financial markets.

completely imaginary amounts of CO₂ emissions are marketed, and the above-cited “revisions” signify nothing less than the legalization of fraudulent statements.

With this change in the law, the precondition was created for massive manipulations of revenue and profit forecasts, uncoupled from any realistic basis, solely in order to attain gigantic financial gains. Is it any wonder, that companies arbitrarily increase their attractiveness to investors on the basis of this swindle? As the *New York Times* reported in 2011, of the 19 biggest companies in the industry, 7 abruptly increased their reported reserves by 200%, while expenditures for exploitation fell accordingly, to their advantage.

As a consequence of this wonderful “growth,” funds and certificates are popping up like mushrooms out of the ground: funds for drilling equipment, rail transport, LNG (liquefied natural gas)—funds for everything connected in any way with shale gas profits. It is precisely here that one sees what a real economic disaster follows from the miscalculations made under the new exchange law: The U.S. Geological Survey, reporting on the case of the Marcellus Field in Pennsylvania, said that the misestimation was in the range of 80%.

Write-offs have therefore been on the agenda since 2009, and for many companies, the large investments are already at the borderline of what is feasible under today’s conditions, and fall below that line with an oil price below \$70 per barrel [It is now about \$60—ed.]. Loder and Arnsdorf reported in *Bloomberg News* on Oct. 10, that CEOs are under financial pressure, solely to impress investors, to make public reports of reserves which are still 5 to 27 times (!) higher than what has been reported to the exchange authorities.

Depletion of the Real Economy

The over-hyped expectations for the creation of employment in fracking were just as misleading. According to a study by the State of Ohio, the shale gas revolution was supposed to create at least 200,000 new jobs. In reality, it was 20,000. For Pennsylvania, the estimate was 100,000, and in the end it was 44,000.



DESERTEC/Michael.Straub@desertec.org

The Desertec project to build solar reflectors in the Sahara Desert was the brainchild of the genocidal Club of Rome; it has now gone the way of Ozymandias.

But the fracking business, saddled with these problems of inefficiency, will go completely out of control, no later than when the attempt is made to construct the entire energy supply of an industrial nation according to the rules of the game of this financial market swindle. Where are the pipelines that will bring the recovered oil out of sparsely populated North Dakota to the industrial centers? Where are the ports through which the liquefied natural gas is to be shipped overseas? None of this is available.

This problem immediately recalls the senseless plans which the great global players originally had for the now miserably failed solar energy project known as Desertec. The German nuclear exit also struggles with this same nightmare of retrofitting: Multiple large power transmission lines have to be built all across Germany in order to bring the energy from the North Sea windmills to the industrial centers in the south.

Thirteen years after the installation of the first offshore wind turbines in Blyth Harbour in northeast England, the firm TAG Energy Solutions finds that wind turbines in the sea are perhaps the most expensive way of producing electricity. Thanks to the subsidies paid out for this, some financial sharks have been able to skim off large profits in the interim. All under the motto: “Après moi, le déluge.”



Wikimedia Commons

Windmills, like these offshore wind turbines in Blyth Harbour, U.K., are the most expensive way to produce electricity. Only fat government subsidies have allowed the financial sharks to skim off big profits.

Equally criminal are the actions of Warren Buffett, who is among the initiators of the fracking swindle, with his Berkshire Hathaway firm. In 2009, Buffett was allowed to buy all the rail lines for the future transport of the oil derived from fracking, for \$34 billion, and it is no surprise that he has since given preference, in the use of this rail empire of now more than 32,500 miles of railroad routes, to the transport of drilling materials and the evacuation of the raw material, which rose particularly sharply from 2012 to 2013.

After hearings in Washington in the Spring of 2014, the American Surface Transportation Board found itself forced to demand that Buffett's BNSF (Burlington Northern Santa Fe) railroad not hinder the transport of agricultural fertilizers.

A similar problem exists in California, which, as is well known, has been struck by a pronounced multi-year drought, and for obvious reasons, cannot spare the water which is now being used, in not insignificant quantities, for fracking.

But it is not only greed which prompts people like Buffett to compete with food production in their own country. In May 2009, he participated in the Billionaires' Club meeting in New York, at which Bill Gates, George Soros, Ted Turner, Michael Bloomberg, and others got together to talk about their common goal: reducing the Earth's population. These people know very well that a flourishing financial market swindle kills two birds with

one stone: It fills their pockets, and at the same time, takes down society's industrial production.

So it is not at all surprising that this same Billionaires' Club controls and finances the radical environmental movement in the U.S.A., as was made public by U.S. Senate Environment and Public Works Committee staff members Luke Bolen and Cheyenne Steel in their report of July 30, 2014.⁵ It was the Club of Rome who nominated the new gods of Olympus—investors—who for three decades now have been acting on the motto that material growth has long since reached its limits. The motto of the investors is "intangibilized growth": capital market profits instead of production.

The Pickens Plan

From this shaky ground now arises the dream of an energy-independent America, which replaces Saudi Arabia in its role as the world's leading oil producer, to make the world dependent on it, and thereby enable the U.S. to dominate the globe. But there has arisen also the suspicion that the Pickens Plan, the poster-child of the neo-conservative American Enterprise Institute, since its launch in 2008, will lead quickly to the true intent behind the foolhardiness of this plan: the belief that its backers will realize the old British imperial plan for a world government.

The plan goes as follows: The money that America pays OPEC for imports will be saved by the fracking revolution. Thus, not only will the payments to the Saudi sheikhs disappear, but also, the dependency on a region which, in any event, is sinking into chaos. Instead, America will construct the entire infrastructure for this new enterprise, in order then to export oil and gas to the entire world, especially to Europe, China, and other strategic partners in Asia.

The funds thus generated will not only serve to take down America's trade deficit, but beyond this, will also pay for the complete renovation of the U.S. energy supply system: giant wind parks in the Great Plains; solar power plantations in the sunny South; a modern

5. U.S. Senate Committee on Environment and Public Works, "How a Club of Billionaires and Their Foundations Control the Environmental Movement and Obama's EPA," July 30, 2014.

power grid; conversion of all vehicle fleets to natural gas or biodiesel; and insulation of buildings. T. Boone Pickens will personally invest \$1 billion in wind turbines. This is all supposed to be complete in ten years.

From the German standpoint, it is interesting that this plan existed long before the accident at Fukushima.

Chancellor Angela Merkel, who has always signaled that she inclined more to the claims to power of the big investors, than to her own expertise in physics, perhaps saw, during the days of the Fukushima accident, her great chance to use the exit from nuclear in Germany to reach for the stars, and break into the ranks of the global players.

Here, as well as there, one must give credit and honor to those experts who warned long ago, that this enterprise amounted to nothing more than a giant Ponzi scheme.

Like Desertec, this entire strategy will collapse into the sand more quickly than some suspect, and those who still today are letting themselves be blinded by the promise of fuel deliveries obtained, or low energy prices, will soon have to think otherwise.

This article originally appeared in the German weekly Neue Solidarität Dec. 3, 2014, and was translated by EIR.

Fracking Exacerbates U.S. Drought Crisis

In California, Texas, and other parts of the West, drought is a national and world-scale water and food emergency. Nevertheless, hydraulic fracturing (fracking) is consuming huge volumes of water for oil and gas extraction.

A 2014 report by the Boston-based Ceres, found that 47% of all new fracking wells opened in the U.S. and Canada over the 29-month period January 2011 to May 2013 were in areas of high water stress. The map shows four such areas for the U.S.

Drought-stricken Texas, during this time period, had 9,000 new wells opened in places of extreme water shortage, and another 9,000 in dry-prone locations.

Only about 5% of all water used for fracking in these regions has been recy-

clad; that is, 95% is “consumed,” and gone. This has directly led, in such places as West Texas and eastern New Mexico, to ranches shutting down, and towns running out of water.

The volume of water consumed in these wells overall, in the United States and Canada, over a 2.5 year period, amounted to 367 million cubic meters (97 billion gallons). That is equivalent to the municipal water use of a city of 1 million people for a year.

—Marcia Merry Baker

