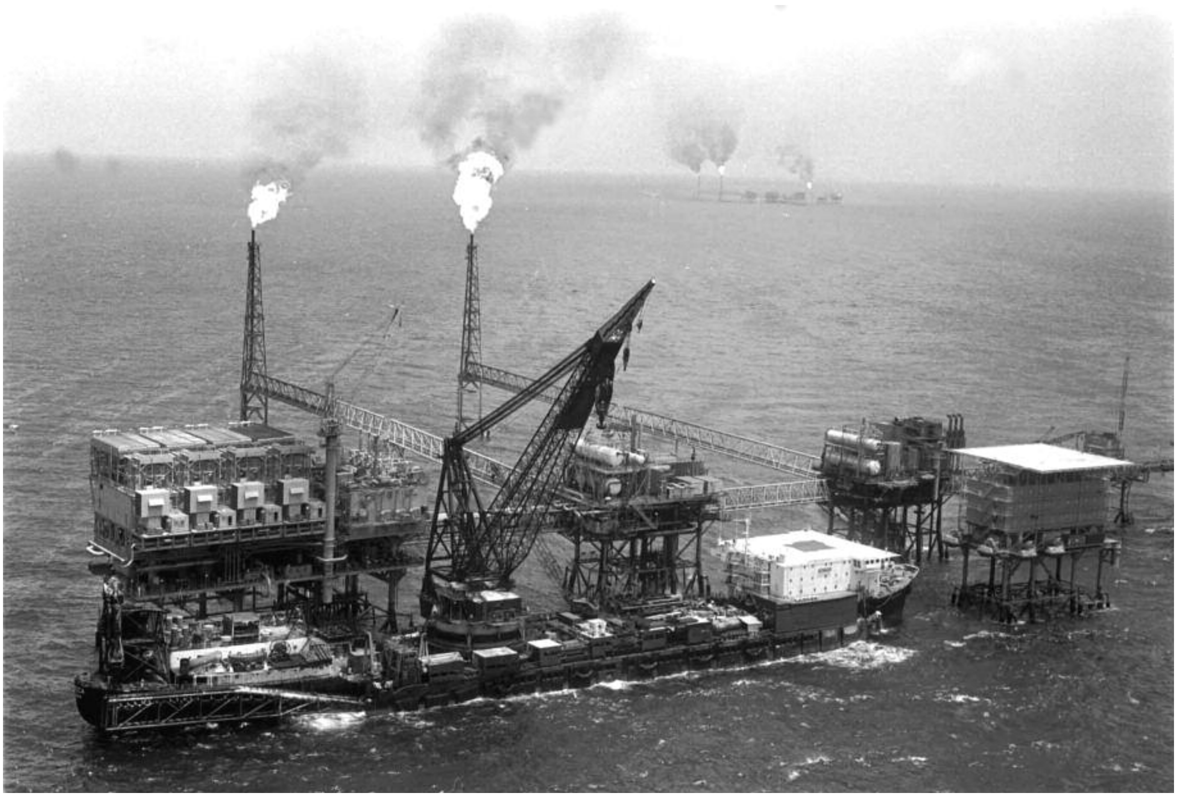
# The North American Fossil Fuel Market
# Part 1
# U.S. Fuel Weakness

Miguel García Reyes*



Pedro Valtierra/Cuartoscuro

INTRODUCTION

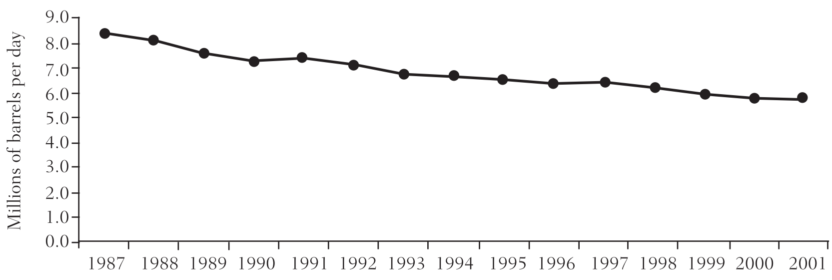
In the framework of the oil crisis that began in the 1970s —first as a result of the 1973 Organization of Petroleum Exporting Countries (OPEC) oil embargo and later because of Iran's 1979 adjustment in oil prices— and for national security reasons because a great part of their economic development depends on their use of oil, the industrialized capitalist countries decided to speed up the creation of regional blocs through which they now are trying to ensure the future supply of fossil fuels. At the same time, they also want to put an end to their dependence on distant external sources, particularly those that are immersed in political or even military crises.

This is what the United States has been going through since then, and even continues to go through, despite the efforts that its authorities have made to strengthen the domestic oil sector and depend less on crude from abroad, particularly from the Middle East.

* Researcher in the CISAN Strategic Studies Area.

**Graph 1**

**U.S. Crude Oil Production (1987-2001)**

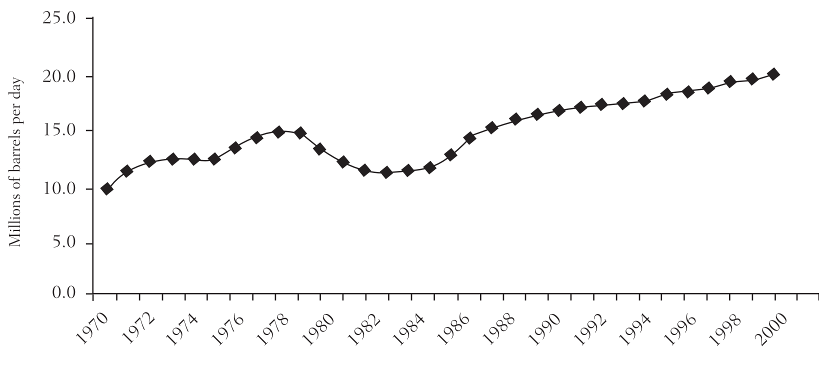



**Source:** Energy Information Administration/Short-Term Energy Outlook, September 2002. www.eia.doe.gob

Among the elements that show the weakness of the U.S. oil sector are the decrease in production, above all of crude oi, and the notable increase in fuel consumption.

**Graph 2**

**U.S. Oil Consumption (1970-2001)**




**Source:** Energy Infomation Administration/Short-Term Energy Outlook, September 2002. www.eia.doe.gob

Today, several elements reflect the weakness of the U.S. oil sector. Some of them are even determining factors in the good functioning of the local economy. For that reason, while today our northern neighbor is an economic giant, at the same time it is an oil midget. Japan and some Eastern European nations, which depend greatly on oil imports, are just as severe cases.

Among the elements that show the weakness of the U.S. oil sector are the decrease in production, above all of crude oil; the notable increase in fuel consumption, particularly of natural gas; and the resulting increase in the volume of oil imports. We would also have to add the dangerous decrease in the volume of proven and strategic oil and gas reserves.

Given this, we should not be surprised that in recent years, the different administrations that have occupied the White House, concerned with the weakness of their local oil sector, have developed a series of strategies to ensure oil supplies. These strategies foster everything from continental oil integration, starting with North America, to the physical occupation of territories overseas that possess the black gold.

## The U.S.'s Fuel Weakness

Throughout its history, the United States has experienced fuel problems, particularly with regard to oil and gas products. This was due to the industrial development model followed from the beginning of the last century, based, as everyone knows, on the intensive use of oil derivatives. The origins of this situation date as far back as 1870 when the internal combustion engine began to be used in Europe and the United States. Since then industrialized capitalist societies created widespread dependence on this raw material, strategic because it is limited and non-renewable. However, given its relative abundance and low price, these countries became assiduous oil consumers.

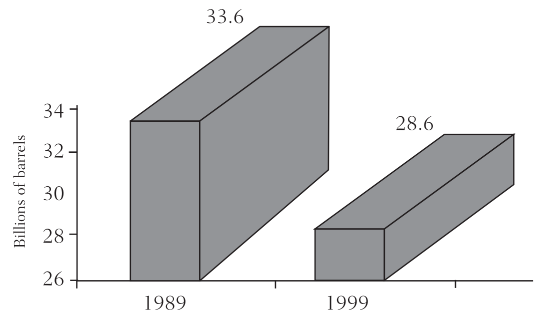
The United States had no problem with its oil and gas supply from either domestic or foreign sources in the first half of the last century. It tapped the rich oil fields of Michigan, Illinois, Texas, Florida and California,[1] and bought from the oil-rich nations of the Middle East, particularly the Arabian peninsula, obtaining marginal amounts of oil and gas from countries of the Far East and Latin America.[2] The large deposits in the Soviet Union and China were out of its reach.

By the first half of the last century and thanks to the two world wars, the United States was able to achieve a stronger role for its oil companies in lands that until then it had not been able to dominate: Africa and some areas of the Middle East. It also increased its presence in Latin America and some parts of the Caribbean.

Thus, through the use of political and diplomatic instruments, it was able to ensure the satisfaction of its oil needs and, what was more important, it did so at a low cost. This finally allowed it to experience accelerated economic development, particularly in industry, at a low price.

**Graph 3**

**U.S. Proven Oil Reserves (1989-1999)**




**Source:** Energy Information Administration/Short-Term Energy Outlook, September, 2002. www.eia.doe.gob

While today our northern neighbor is an economic giant, at the same time it is an oil midget. Japan and some Eastern European nations are just as severe cases.

However, in the second half of the twentieth century, the United States began to show signs of "energy weakness" given, among other things, an increase in the population, the high rates of industrial growth and its participation in the U.S.-Soviet arms race. This weakness led to its authorities making a foreign policy priority of the quest for solutions to this crisis. The most dangerous and critical moment of this fuel vulnerability came at the end of the 1970s when the inefficiency of its oil infrastructure was made clear and at the same time, abroad, above all in the Middle East, tensions began to mount due to the increasing activity in the area by the Soviets and the OPEC countries.

Given the danger that the lack of oil meant to the United States, then-President James Carter prepared an oil strategy to solve the crisis,[3] which was caused, among other things, by the following factors:

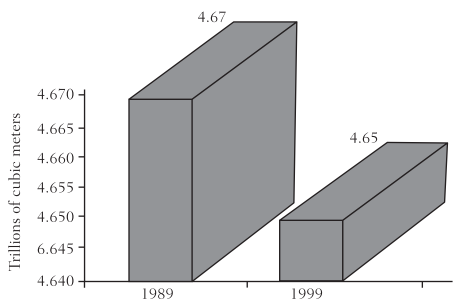
1) Local oil fields gave out as a result of irrational drilling and pumping, which caused a notable decrease in domestic production;
2) The increase in domestic demand and the resulting need to import ever greater amounts of oil and gas;
3) The notable loss of U.S. influence in the international oil market, specifically on the part of U.S. oil multinationals, due to the emergence and consolidation of the OPEC.

It should be emphasized that the United States was entering into this oil-weak stage —now a chronic state— despite the fact that in the past its oil multinationals, particularly those that belonged to the Seven Sisters Cartel, had almost completely dominated the international oil market. That had made for an oil market of low prices which, I reiterate, permitted the capitalist nations to develop economically at a low cost. During the first half of the last century, the price of crude never went over U.S.$3 a barrel, in sharp contrast with the late 1970s, when a barrel of crude cost more than U.S.$40.

However, despite the predominant role for many years of the U.S. oil multinationals in the world market, our northern neighbor experienced a severe fuel crisis in the 1970s, a crisis which persists until today. This crisis is explained by the absence of both an effective program for working the domestic oil fields and a long-term geo-political vision that considers oil and gas as a central element. The former reason finally caused a decrease in the production volumes and oil reserves (see graph1); the latter reason caused the United States to be excluded

**GRAPH 4**

**PROVEN U.S. NATURAL GAS RESERVES (1989-1999)**




**Source:** Energy Administration/Short-Term Energy Outlook, September 2002. www.eia.doe.gob

With current volumes, the U.S. will only have enough oil for 10 years at most, making this an important national security risk.

from the cooperation practiced in certain parts of the world with regard to oil.

All of this became very dangerous for world equilibrium given that it involved a super-power and not a developing nation: that is, it is not the same for one or several countries in Africa or Latin America to run out of oil and gas as for it to happen to the United States, a power willing, as it has shown, to use its political, economic and military superiority to its advantage.

Graphs reveal the general panorama of the crisis the United States oil and gas sector is currently going through. Graph 2 shows the increase in domestic oil and natural gas consumption, due, among other reasons, to their intensive use in transportation and military industrial production, first as a result of U.S. participation in the Cold War and later as the main actor in the construction of a new international order.

When proven oil and gas reserves dropped dangerously beginning in the 1970s, the United States' oil weakness grew. The drop was due to the irrational use of local oil fields and the lack of investment in exploration for new reserves. This state of affairs, very common in oil and gas producing countries, was not necessarily a positive thing in the United States because it is the nation that requires the most crude oil and gas for consumption.

Oil reserves fell by 20 percent in the last 10 years (see graph 3), dropping from 33.3 billion barrels in 1989 to 28.6 billion in 1999. This same trend, though not as pronounced, can be seen in Graph 4 for the case of natural gas.

It should be pointed out, however, that in the case of crude oil reserves, the situation is much more dangerous since with current volumes, the U.S. will only have enough oil for 10 years at most, becoming an important national security risk. What is more, that figure could drop to one year if the United States had to abruptly and permanently stop its imports of crude oil and gas. That is why the White House's oil strategies recommendations propose that the country maintain its reserves at all costs while, at the same time increase its oil and gas imports, above all from regions that are politically and socially stable, such as Southeast Asia and Latin America.

Graph 4 shows that proven natural gas reserves have not dropped as abruptly as oil reserves, which does not mean that their decrease is not just as dangerous for the U.S. economy. This is particularly the case if we take into account the fact that in recent years, the United States has experienced an important increase in gas consumption, especially for generating electricity.

Finally, oil imports to the United States have also increased dangerously in recent years, which also means that the country depends increasingly on foreign supplies of fuel (see graph 5).

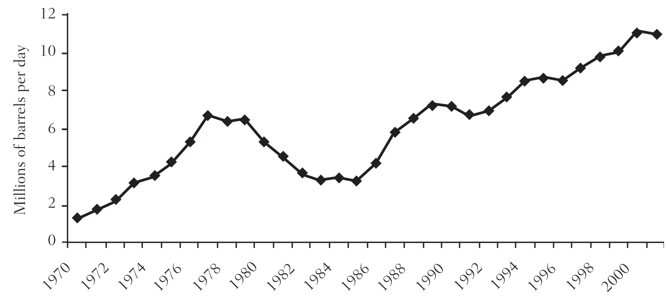
White House planners have had to design a series of international policy strategies to ensure the supply from abroad; their aim is to maintain a constant flow of fossil fuels, but their application has caused significant geopolitical changes worldwide, to the point of even changing the world's geography. What is more, as a result of the implementation of U.S. oil strategies institutionalized since the Reagan administration, Washington has not only contributed definitively to changing the world's political geography, but also to the construction of a new international order in which consuming countries now have control of the market.

Since the 1980s, precisely in the framework of these oil strategies, the United States has had to gradually replace supplier countries from the Persian Gulf with others in less conflictive regions (see graph 6). Thus, the Middle East contribution to total U.S. imports dropped from 35 percent in 1980 to 20 percent in the 1990s. A similar situation is that of producing nations in the Far East, which also reduced their exports to the United States by 20 percent.

The opposite happened with Canada and some Latin American nations, who benefited from the political strife that began to plague the Middle and Far East. In that context, Mexico managed to increase its exports to the United States by more than 200 percent, going from 400,000 barrels a day in 1977 to a little over 1.5 million barrels a day in 2002. With this substitution of oil and gas suppliers, countries like Mexico, Venezuela and Saudi Arabia have today become the main suppliers of these strategic raw materials to the United States.

**Graph 5**

**U.S. Oil Imports (1970-2001)**

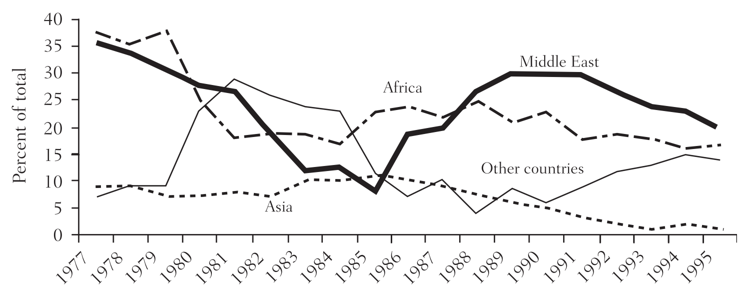



**Source:** Energy Information Administration/Short-Term Energy Outlook, September, 2002. www.eia.doe.gob

White House planners have had to design a series of international strategies to ensure the supply of fossil fuels from abroad that have caused significant geo-political changes worldwide.

**Graph 6**

**Origin of U.S. Oil Imports (1977-1995)**




**Source:** José Luis Manzo Yépez, *¿Qué hacer con PEMEX? Una alternativa a la privatización.* (Mexico City: Grijalbo, 1996), p. 31.

## Conclusions

Given the facts and trends explained above, we can confirm the hypothesis that the United States is currently going through a grave petroleum crisis which is the result, among other things, of erroneous policies for developing its domestic infrastructure and of the political uncertainty prevailing today in some oil-producing regions. With regard to the former, we can highlight the lack of investments in new wells; with regard to the latter, we see how, given the most recent international geo-political changes, the United States has reacted by trying to impose a new international order, which of course includes a new world oil order.

All this also confirms the fact that despite its military might, the United States is more vulnerable now than ever to the ups and downs of the international oil market. For that reason, and taking advantage of the instruments it has at its command, this single power has prepared and implemented a series of oil strategies that include projects of fuel integration with its neighbors in the Western Hemisphere. Of these projects, undoubtedly the most advanced is the free trade agreement with Canada, which allows the latter to sell increasing volumes of gas to the United States; just a few steps behind are the North American Free Trade Agreement, the Free Trade Area of the Americas, the Puebla-Panama Plan and the oil multinational Petroamérica.

It is in this context that we can say that the creation of a North American fuel bloc is a sure thing since it is not just a matter of the political will of those in power, but also —and this is the most important factor— of the existence of real economic and political factors that particularly push the United States to create a regional alliance. In a kind of tri-continental division of labor in the North American region's oil area, the United States is the market for Canadian and Mexican fossil fuels, while Canada and Mexico are on the receiving end of financial and technological resources that the United States has in abundance in energy development. Lastly, we must not forget that for the three countries, the issue of fuels is a priority on their respective national security agendas. VM

NOTES

[1] Alain Perrodon, *Historia de los grandes descubrimientos de petróleo y gas* (Moscow City: Moscow Edit, 1994).

[2] Daniel Yergin, *The Prize* (New York: Simon & Schuster, 1992).

[3] Ibid., p. 130.