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MINED LAND RECLAMATION

Rock in the Box

Risky business by C. E. Brechtel

The current "Crisis in the Gulf" has brought the need for a long-term US energy policy back onto the national agenda. Publications of the oil industry now abound with calls for the development of an effective policy that avoids the mistakes of the past. Other industrial nations have developed and implemented policies to encourage conservation and development of alternative energy sources while discouraging the consumption of imported oil. Some of these nations have become dominant economic powers, while being almost totally dependent on imported oil. That suggests that a national energy policy can be effective and support an expansive economy. Given our current military confrontation in the Persian Gulf, our growing imports of crude oil, and our declining dominance in the world economy, continuation of the status quo could be risky business.

The main objective of a national energy policy should be to minimize the impact of externally imposed price increases on our economy. We cannot allow our energy supply to float aimlessly on the sea of Middle East politics and free market prices. Three times in the last 20 years, political turmoil in the Middle East has caused large disruptions in the price of oil with subsequent recessions in the US economy. The political landscape in the Middle East is formed by the historic meddling of resource hungry European nations and the culture of Islam, which does not march to the drum of pragmatic US capitalism. It does not appear that stability will come to this volatile area in the foreseeable future. The US will, however, continue to be tied to the Middle East because of our appetitite for petroleum, our support of Israel, and our national policy of equal access to resources for all nations.

During an interview on the MacNeil-Lehrer Report, aired soon after the invasion of Kuwait by the Iraqi army, a diverse group representing DOE, the oil industry, and various public interest groups discussed an idea whose time has come and should form the basis of any future energy policy. The premise of some in the group was that the "Real Cost" of foreign oil to our nation has not been reflected in the market price. "Real Costs" arise from a variety of sources and include risks of economic disruption due to price increases, destruction of our domestic energy industry, damage to our economy through the imbalance of trade, unrecovered costs for the burden of environmental protection, and the costs of military commitments to assure access to energy supplies for both ourselves and other nations. Other industrial nations have recognized these costs for some time and have imposed oil duties. Minimization of these "Real Costs" should provide a rational basis for implementing an energy policy that is consistent with our economic system. Embodied in this approach should be the reduction of risk by long-term planning.

Destruction of the productive capacity of our domestic oil industry is directly linked to the plunge in oil prices beginning in 1983. Personnel and equipment resources that were lost during the last seven years cannot be easily replaced. How much of the Savings and Loan bailout is directly linked to the collapse in oil prices? Our capacity to rebuild this important industry was also affected, according to *Financial World* (July, 1990). It reports that funds that the oil industry requires for future capital investment have dropped to 57% of their peak in 1984. Similar problems are occurring in the OPEC nations. They have allowed their productive capacity to decay because current prices have produced insufficient capital to support both capital replacement in their oil industry and maintenance of their new national infrastructure.

The impact of imported oil on the US balance of payments is huge, and the current surge in price is expected to accelerate and deepen the coming recession. The approximate average price increase of $20 per barrel that has occurred since the invasion of Kuwait would add $46 billion to a single year's trade deficit for the cost of imported oil. Energy use in the US continues to drop as a percentage of the GNP, indicating our overall efficiency. But total imports of oil will continue to grow, threatening to reach 60% by the mid 90s. This, combined with price increases, will add billions to the nation's import bill.

The US faces difficult problems in the development of mass transit systems due to its relatively low population density and the preference of its citizens for the flexibility inherent in the use of personal automobiles. Low oil prices have all but derailed mass transit development and reversed the trend towards conservation of fuels. Single passenger commuting strains the existing highway infrastructure in most urban areas. With inflation-adjusted gasoline prices similar to pre-embargo (1973) prices, people have been less inclined to consider small cars. Automakers have responded by manufacturing larger cars, complaining about fleet mileage requirements. The impact of this change in attitude will persist well into the future as people resist again the changes in lifestyle mandated by the coming higher fuel costs.

The US leads the world in environmental protection. This, however, imposes a cost on our own oil industry not carried by OPEC producers. It places domestic production at a disadvantage, and, unless the playing field is leveled, could result in acceleration in the decline of US production. A national energy policy should be structured to encourage domestic oil producers to enhance their efforts to comply with current and future environmental legislation.

Military confrontations between nations in the Persian Gulf have required substantial commitment of US forces twice in the last five years. US military expenditures are not solely directed towards the capability of inter-

continued on page 1278

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Rock in the Box

continued from page 1277

vention in the Middle East. But the ability to maintain access to oil supplies there has been a primary objective of the western allies for decades. As the military threat is reduced by the failure of communism in eastern Europe and the Soviet Union, the defense industry and Saddam Hussein remind us that the world is still a dangerous place. The cost we bear as a nation to unilaterally maintain our current military capability is enormous and burdens our entire economy. There are no apparent alternatives. In the current crisis, we find ourselves committed to the ground defense of Saudi Arabia on a scale that was hard to imagine several months ago. The risk of war and its subsequent cost is enormous. How can we measure the "Real Cost" of the dead and maimed soldiers that may result if the current confrontation escalates out of control?

A national energy policy should use import duties and excise taxes to maintain prices of both imported oil and domestic fuels at levels that encourage domestic energy production and discourage consumption. The tax revenues developed should be exclusive of the general fund. They should be designated to support improvement of the transportation system, to develop alternative energy sources, and to pay the portion of military costs necessary to protect our access to foreign energy supplies. Higher prices would promote stability in our own exploration, production, and distribution of energy.