Hindsight

H49: The Big Lie We're Told about the US Oil Industry

Introduction

We've been lied to for decades.

> ["serious energy shortages", Nixon 1973]

> ["we have about 35 years worth of oil left in the whole world", Carter 1976]

For as long as we've been consuming oil, we've been running out.

> ["In 10 years, if we do nothing, we will be importing more than half our oil at prices fixed by others", Ford 1975]

The common narrative is that the US needs to become independent from foreign sources, or risk…

> ["an economic, social, and political crisis that will threaten our free institutions", Carter 1977]

> ["America must get to work producing more energy. To free ourselves from imported oil" , Reagan, 1980]

But today, after decades of warnings about America running out of crude, and being warned about imported oil, on the surface, nothing appears to have changed.

In 2011, the US became the world's top producer of natural gas, overtaking Russia. [0][0]

Seven years later, they became the world's top producer of petroleum, overtaking Saudi Arabia. [0][0]

And in 2020, they were producing 18 million barrels of oil per day, roughly the same amount as they consumed. [0] But 40% of this was imported, and as much as 8 percent came from Russia. [0]

We have entered a new global energy crises and consumers are noticing this at the pump. Historically, whenever this happens, it starts a new cycle of dire warnings in the

media. [0] So let's take a step back, and let's take a look at the origins of the oil industry in the United States, and how this created this recurring narrative of doom and gloom.
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This is the Big Lie about the US Oil Industry… with Hindsight.

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Today, the Global Oil & Gas industry is the largest industry in the world by revenue. It brings in more than twice as much revenue as the global tourism sector, and its twice the size as global car manufacturing. [0]

It's a truly massive industry and it started in the United States. [0]

In Western Pennsylvania, in the 1850s, it was common to find sites where petroleum was seeping from the ground. Edwin Drake had been drilling for years, when Seneca Oil Company decided to withdraw his funding. Drake took a personal line of credit, and just before his final funds ran out, he got lucky. [0]

On this picture we see Drake with the nation's first refinery. A year later, Pennsylvania was richest oil-producing region on Earth. This was the first large-scale commercial extraction of petroleum, and by 1880, the United States was responsible for 85% of the world's crude oil production. [0]

But Drake died a poor man. He never patented his drilling method, and he had not purchased much land. [0]

The oil boom grew out of his control, and was ultimately tamed by the Rockefellers, who now owned 90 per cent of U.S. oil refineries and pipelines, and they had the world's largest fleet of oil tankers. [0]

In the 1870s and 80s, they established a monopoly over the industry in Pennsylvania, and Rockefeller owned 90 percent of U.S. oil infrastructure. [0]

By this time, the attention shifted to other regions, and especially to Texas.

Texas has an arid landscape and city crews had occasionally found oil when they were searching for water, but these wells were abandoned. But on January 10, 1901, Texas would change for good. [0]

By that time, Texas was still principally driven by agriculture. The mechanization of farm work was in full swing, enabling farmers to produce more food with fewer people. The state had invested in railroads, which drastically affected Texan's lives. But nothing could prepare them for what would happen next. [0]

At Spindletop, near Beaumont, a well names Lucas No.1 started gushing oil more than 100 feet into the air. It took them 9 days to cap, and this discovery fueled a major oil rush in the region. [0]

A year later, the Spindletop oil field was producing 17.5 million barrels in one year, out of that year's total oil production of 18 million. [0]

The discovery led to an influx of hundreds of wildcatters, lusting after a piece of the action, as well as thousands of workers looking for jobs. This was followed by the emergence of related industries, like supply and manufacturing firms, dealers, and refineries, as well as scam artists, gamblers and liquor dealers. All looking to get a chunk of the worker's paychecks. [0]

This was the beginning of the modern industrial era of Texas.

In 1908, Henry Ford introduced his Model T, the world's first inexpensive, mass-produced car, which led to an increased demand for petroleum. [0]

And in 1911, Standard Oil had gotten so large, that it was broken into smaller, separate entities that would later become Chevron, Mobil, Conoco, and Exxon. [0]

The Spindletop discovery became the birthplace of other oil giants like Texaco and Gulf Oil, and these industries had a ripple effect across the state. The railroads converted from coal to oil, and roads were paved to facilitate the use of cars. People moved to the city, and the oil money was invested in education, arts, and scientific research. It affected every aspect of the lives of Texans, but this really was only the start. [0]

If we lay US oil production on a chart, with this red line being Texas, we see it went down in the 1900s, before eventually going up and absolutely exploding since in the 1920s. In 1950, Texas first produced a billion barrels of oil per year. [0]

But here's the thing. Right before oil production got into high gear, the people were made to believe something else.

The U.S. Geological Survey in 1919 predicted that oil supplies would run out within a decade. There had been widespread shortages of oil in the years prior, giving credibility to these claims. This prediction triggered the country's first nation-wide oil security fears, and the recommendations were clear: [0]

First, petroleum had to be preserved. Second and third, more research is required, and…

> *"The greatest waste of petroleum has been in exporting crude petroleum and petroleum products to foreign countries"*

In just a few decades since the emergence of a global oil industry, the United States had become addicted, and narratives that oil production was less than oil consumption [Screenshot 2024-05-17 at 13.31.22], became widely repeated. Warnings of oil shortages [Screenshot 2024-05-17 at 13.28.10] and seeing the United States as a dependent nation [Screenshot 2024-05-17 at 13.28.38] instilled fear in the American public. [0][0]

There were a total of 7 oil shortages before 1950, and each time there were plenty of individuals ready to prove that crude oil would be exhausted within a few years. But it never did. [0]

Here's a quote from 1958:

We usually find oil in new places with old ideas. Sometimes, also, we find oil in an old place with a new idea, but we seldom find oil in an old place with an old idea. Several times in the past we thought we were running out of oil whereas we were only running out of ideas." – Parke A. Dickey, petroleum geologist, 1958 [0]

In 1950, the U.S. Geological Survey estimated the world's oil endowment to be 600 billion barrels. This figure gradually increased to an estimated 3,000 billion barrels by the year 2000. If we overlay the cumulative production, we see that after 5 decades of consumption, they estimate that there is now more oil left than in 1950. [0]

The oil industry has become global, and the debate about U.S. energy has shifted in focus over the decades, shaped geopolitics, technological advances, and concerns over climate change. After the 1973 oil crisis, it increasingly centered around strategic risks. This crisis showed how external price hikes could affect the U.S. economy. It also forced several administrations to keep relationships with some of the least democratic, but very oil-rich nations. [0][0]

In recent years, the United States has increased its oil production, especially in Texas. [0] Even though there are fewer active rigs, better technology has resulted in a much higher production. [0]

There is no question that at some point the oil will run out, but this is unlikely to happen within our lifetimes, or even our children's lifetimes. [0] US oil production has seldom been so high, and it finally caught up to match consumption.

But yet, in 2020, the United States was still importing about 40% of their oil, and this was increasingly imported from Russia. [0]

At the time of Russia's invasion of Ukraine, the United States imported a record number of 672,000 barrels of petroleum per day, before banning all imports. [0]

But today, of the 8 million barrels that are still imported, little over half comes from Canada, and much of the rest from the Persian Gulf and from OPEC countries. [0]

Why wouldn't they just use the oil that they produce?

The problem is that the United States lacks the capacity to refine all the crude oil that it produces into fuels such as gasoline and diesel. It has primarily the capacity to produce light, sweet oil, but most refineries in the US are designed to process heavy, sour oil. It boils down to simple economics. Overseas oil, even after shipping costs, is often cheaper than domestically produced oil. Many companies, as a result, import the types of oils for which they have existing refining infrastructures. [0]

Now, to answer the question why we're constantly being told that oil is running out, we must enter the realm of speculation.

One theory is that periodic energy crises are used by politicians to criticize their incumbent. It's leveraged to achieve political ambitions in the energy sector. [0] There are also real concerns about whether we can produce enough oil to satisfy the global demand, [0] and some earlier claims were perhaps rooted in insufficient research.

The amount of crude oil we produce is thus more dependent on the political will to allow extraction, our inventiveness, and our technical ingenuity, rather than limitations imposed on us by mother nature. At least for now.

CTA

If you want to see another video, please consider watching one of these two videos next.

MAIN SOURCES

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