ED WALLACE

The End of the Oil Age

BY ED WALLACE
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"How did you go bankrupt?"

"Two ways. Gradually, then suddenly."

— Hemingway, *The Sun Also Rises*

The cheerleading for the shale industry a few years ago seemed a little overdone. Wall Street talking heads were giving their breathless analysis that our fossil fuel-based economy — indeed, the entire world's — was saved for decades into the future by the advent of fracking, first with our natural gas fields and then with oil.

Like most modern inventions, fracking is almost as old as the oil industry. It was just more primitive in its earliest form, which involved using dynamite to get hard rock oil wells to release more of the crude. Larger and more modern tests, by Standard Oil in 1947 with gelled gasoline and Arkansas River sand in southwestern Kansas, proved fracking viable for increasing natural gas production's output. And the next thing you know decades fly by and we've got natural gas wells all over the Barnett Shale field in North Texas. And who knows how many millions of acres in West Texas and southeast New Mexico for oil. While the decline curve of a natural gas well can leave a well producing over 20 years, albeit with declining output, shale oil wells seems to be the equivalent of mopping up spilled milk.

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In 2015 Pioneer Natural Resources filed with the Securities and Exchange Commission that it was “drilling the most productive wells in the Eagle Ford Shale,” with each expected to deliver 1.3 million barrels of oil. But early last year the Wall Street Journal examined those production runs and suggested that each of those Pioneer wells was on pace to deliver only 482,000 barrels of oil in its functional lifetime — 63 percent less than hoped for. The point is that, when the biggest thing in the energy industry since people quit hunting whales for lamp oil delivers so little for far too short a time at too high a cost, that’s not a long-term proposition or a viable solution.

Moreover, when you consider that the shale oil industry had lost hundreds of billions of dollars even before the coronavirus pandemic hit, that adds another layer of reality to those funding these operations. True, the sheer number of fracked wells being drilled and exploited raised U.S. oil production to record heights; but, as a business model, unless crude prices are sky high fracking doesn’t have a solid business model.

The question is, are we truly seeing the beginning of the end of the oil age this time, or are we simply repeating the mid-Eighties collapse in oil prices? After all, that was only a lull in the industry and oil pricing, yet it wiped out many famed, successful oil field services companies in Texas.

In the first week of March in 1985 at Meador Oldsmobile, I spoke with an old high school friend who needed 28 Olds 88 sedans for her family’s company. The issue was that the way she wanted them equipped was not going to happen without special ordering, a delay she was not willing to accept. After an angry goodbye, with a ringing in my ear from her slamming her receiver down, she did call back the next Monday; she was willing to take the 28 Oldsmobiles in our inventory, but only if she could get them that day. But by then I’d found out through a family member that her family’s oil services company already drafting bankruptcy papers, so I declined the sale. My right ear is still ringing from the last time she hung up on me. And sure enough, two days later that company was in bankruptcy court.

The good news? That mid-Eighties collapse in oil pricing, combined with the consequent decline in gasoline prices, gave America its first year of over 16 million new car sales in 1986. Then came the bad news, when our Texas banks started failing from their exposure to failing oil companies. And soon far too many Americans started showing up in showrooms across the country with long times in jobs, long times in homes, and less than stellar credit. Three decades later the subprime market for loans is still far too big for such a wealthy nation.

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Oil did come back in time, although the 1998 Asian Financial Crisis saw crude pricing drop to as low as $10 a barrel in 1999 and gasoline to just 99 cents per gallon in Texas. Adjusted for income inflation, those are the lowest prices ever paid for gas in America. Just nine years later, though, after America deregulated the commodities markets, that same gallon of gas was over $4. Through all of oil’s history, Big Oil and Big Texas oilmen have rolled with the punches. In great years they made fortunes and married movie stars — and then a few years later were selling liquid assets like the Dallas Cowboys.

Even so, this time seems a bit different. Energy World ran a story titled, “End Game for Oil? OPEC Prepares for an Age of Dwindling Demand.” Bloomberg mirrored it with “Oil Companies Wonder It It’s Worth Looking for Oil Anymore.” The Wall Street Journal followed up with a slightly more optimistic, though understated, column, headlined, “Oil Industry Frets About Recruiting Its Next Generation of Workers.” Translated, that means there are some oil executives who believe it is only the lack of growth in the world’s economy, combined with a short term serious drop in demand due to the coronavirus, causing their woes. Once the

pandemic is over and global economic health recovers, they think, gains in oil prices will return; they are just questioning whether kids still want to become petroleum engineers or geologists. The oil cartel, meanwhile, has long since realized that the Middle East's days of Emirs and kings can only continue if they can diversify their economies.

However, much of this depends on the return of commercial aviation as we know it, and experts believe that may not happen until 2025 at the earliest.

And, while they're not really a factor now, electric cars continue to make inroads into the auto marketplace worldwide. A decade ago, Californians purchased just 397 plug-in electric vehicles, while the entire rest of the country purchased only 345. Over the past two years Californians have bought almost 300,000 plug-in electrics, while the rest of the country added nearly 700,000. In parts of Europe EVs are already 4 percent of the new car market and growing. Norway set another record; in that country electric cars now account for 31 percent of all new car sales. Moreover, these sales comprise a very limited number of plug-in hybrids and full electrics; the industry is about to be swimming in more such vehicles.

For the record, the Mitsubishi Outlander plug-in electric was the best selling EV in Europe last year with over 134,886 sales in just the first nine months. The Kia Niro EV, meanwhile, easily was the best selling electric in the Netherlands. But here, they sell squat. The very fact that even though selections are still limited, but EV sales continue to grow overseas is why European oil giants, such as British Petroleum or France's Total, are far more public in their outlook that it's time to diversify away from crude oil and at best turn to renewables.

Of course, any number of things could change the oil market overnight. If any one large oil-producing nation in the Middle East were found to be misleading the world on their real oil reserves, could jump prices substantially and turbocharge our troubled shale oil industry, making it profitable for the most part. But even that might not change the long-term equation.

No, too many individuals have looked at the shale oil math and found it to be problematical for far too many of that industry's players. Wells are used up far too quickly, and often the original forecast for oil output per well was seriously overstated. Many major oil companies have recently written off tens of billions in asset write-downs due to the state of the industry today, while quietly wondering how long this pandemic will continue to depress the world's economy.

The very fact that so many of them are using this time to expand their renewables operations suggests that they might believe that in the future, oil and fossil fuels will cost more because of declining supplies, while the cost of taxes on carbon is only going to increase. While we may not have a direct carbon tax yet, our automakers trade emissions credits for hard cash to ensure federal compliance with those standards. It is high enough that Fiat Chrysler purchased so many emissions credits from Tesla in Europe that those funds are paying for most of Tesla's new German factory; here in the U.S., such trades are the only reason Tesla has reported quarterly profits.

Putting all of this together, it looks like we may be at the beginning of the end of the oil age. It's won't be gone tomorrow or likely even in the lifetime of the Baby Boomers. But if you know a young child dreaming about one day working for Big Oil as a highly paid geologist, now might be a great time to counsel them to consider a different lifetime career.

Ed Wallace is a recipient of the Gerald R. Loeb Award for business journalism, bestowed by the Anderson School of Business at UCLA, and hosts the top-rated talk show, Wheels, 8:00 to 1:00 Saturdays on 570 KLIF AM. Email: edwallace570@gmail.com

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