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The latest OPEC meeting extends the reality of the historic 50% price drop since January. This is good news for U.S. consumers and bad news for producers. Since nearly 3/4 of our oil comes from domestic sources, much of the price decline represents a transfer between different sectors of the economy. The question is, is the decline good or bad for the U.S. as a whole. On the plus side, both OPEC price explosions have been nearly wiped out and gasoline has been reduced to its lowest price in 7 years, including a 35 cents/gallon drop in the last 4 months, which, incidentally, shows that oil companies have indeed passed the price reductions on to the public.

The negative aspect is the devastating impact of the price decline on the producing industry which is entering a structural depression. So far, the overall net economic impact is positive.

On the other hand, the current price is clearly too low to permit replacement of our depleting reserves. In fact, it is barely enough to maintain existing production. This is due to the immutable geological fact that U.S. oil finding and production costs are vastly higher than those in the Middle East, the world's baseload oil supplier. Given the Middle East's vast potential for additional reserves, U.S. prices based on foreign cost will cause domestic production to decline progressively.

Since the lower prices also stimulate demand, our dependency on foreign oil will rise rapidly. By the early 1990's it could well be near 50%, reversing the trend of the previous 8 years. We must therefore decide between the benefit of low prices and
the risk of high import levels. The choice is not easy since it juxtaposes tangible positive economic considerations against hypothetical negative national security considerations. We can postpone the decision until we see a little clearer which way the price is going. But when we do decide we should consider that the lowest price and the national interest are not necessarily synonymous. For a vital basic commodity such as petroleum, foreign market prices are not the only criterion to determine the national interest as it relates to domestic supply.