

A NEW ENERGY “THIRD WORLD” IN NORTH AMERICA?¹

Michael T. Klare

- *How big energy companies plan to exploit the United States • just as they have done to countries in the Global South*

ABSTRACT

Michael T. Klare examines how big energy companies are increasingly focusing their efforts on untapped energy resources in North America, such as shale oil and gas. This is as a result, he argues, of increased regulations and resistance from countries in the Global South, which have been the focus of Big Oil since the 1970s but which have recently become more effective in protecting their energy reserves against foreign exploitation. The author argues that Big Oil's focus on North America brings with it serious environmental and human rights concerns – due, for example, to the technique of hydro-fracking, which risks contaminating water supplies, and the attempts to open up coastal and wilderness areas to drilling that were previously protected. The recent shift in US administration only increases the likelihood that the demands from big energy will be met. All this, the author argues, risks leaving the US exploited by big energy and by the political elite, in the same way that so many Global South countries have been.

KEYWORDS

Big energy | Fracking | Environmental regulation | Big oil

The "curse" of oil wealth is a well-known phenomenon in the petro-states of the Global South, where millions are forced to live in poverty and tiny elites rake in the energy dollars while corruption rules the land.² Recently, North America has been hailed as the planet's twenty-first-century "new Saudi Arabia" for its mammoth reserves of "unconventional" energy – deep-sea oil, Canadian tar sands, and fracked oil and natural gas.³ But here's a question no one considers: Will the oil curse become as familiar on this continent in the wake of a new American energy rush as it is in Africa, Latin America, and elsewhere in the Global South? Will North America, that is, become not just the next boom continent for energy bonanzas, but a new energy "Third World"?

Once upon a time, the giant oil companies from the United States of America (US) – Chevron, Exxon, Mobil, and Texaco – got their start in North America, launching an oil boom that lasted a century and made the US the planet's dominant energy producer. But most of those companies have long since turned elsewhere for new sources of oil. Eager to escape ever-stronger environmental restrictions and dying oil fields at home, the energy giants were naturally drawn to the economically and environmentally wide-open producing areas of the Middle East, Africa, and Latin America – what was then called the Third World – where oil deposits were plentiful, governments compliant, and environmental regulations few or nonexistent.

Here, then, is the energy surprise of the twenty-first century: with operating conditions growing increasingly difficult in the Global South, the major firms are now flocking back to North America. However, to exploit previously neglected reserves in this region, Big Oil will have to overcome a host of regulatory and environmental obstacles.

Knowledgeable observers are already noting the first telltale signs of the oil industry's "Third-Worldification" of the US. Wilderness areas from which the oil companies were once barred are being opened to energy exploitation and other restraints on invasive drilling operations are being dismantled. Expectations are that, in the wake of the 2016 election season, environmental regulations will be rolled back even further and other protected areas made available for development. In the process, as has so often been the case with the petro-states of the South, the rights and wellbeing of local citizens will be trampled underfoot.

1 • The Oil Majors Look South

Up until 1950, the US was the world's leading oil producer – the Saudi Arabia of its day. In that year, the US produced approximately 270 million metric tons of oil, or about 55 per cent of the world's entire output. But with a postwar recovery then in full swing, the world needed a lot more energy while America's most accessible oil fields – though still capable of growth – were approaching their maximum sustainable production levels. Net US crude oil output reached a peak of about 9.2 million barrels per day in 1970 and then went into decline (until the shale boom of the 2010s).⁴

This prompted the giant oil firms, which had already developed significant footholds in Indonesia, Iran, Saudi Arabia, and Venezuela, to scour the Global South in search of new reserves to exploit – a saga told with great gusto in Daniel Yergin’s epic history of the oil industry, *The Prize*. Particular attention was devoted to the Persian Gulf region, where in 1948 a consortium of American companies – Chevron, Exxon, Mobil, and Texaco – discovered the world’s largest oil field, Ghawar, in Saudi Arabia.⁵ By 1975, producers in the Global South were producing 58 per cent of the world’s oil supply, while the US share had dropped to 18 per cent.

Environmental concerns also drove this search for new reserves in the Global South. On 28 January 1969, a blowout at Platform A of the Union Oil Company’s offshore field in California’s Santa Barbara Channel produced a massive oil leak that covered much of the area and laid waste to local wildlife. Coming at a time of growing environmental consciousness, the spill provoked an outpouring of public outrage and helped to inspire the establishment of Earth Day, which was first observed one year later.⁶ Equally important, it helped spur the passage of various legislative restraints on drilling activities, including the National Environmental Policy Act (NEPA) of 1970, the Clean Water Act of 1972, and the Safe Drinking Water Act of 1974. In accordance with the NEPA, President Richard Nixon established the Environmental Protection Agency (EPA) in 1970. In addition, Congress banned new drilling in waters off the Atlantic and Pacific coasts and in the eastern Gulf of Mexico near Florida.

During these years, Washington also expanded areas designated as wilderness or wildlife preserves, protecting them from resource extraction. In 1960, for example, President Eisenhower established the Arctic National Wildlife Range and, in 1980, this remote area of northeastern Alaska was redesignated by Congress as the Arctic National Wildlife Refuge (ANWR). Ever since the discovery of oil in the adjacent Prudhoe Bay area, energy firms have been clamoring for the right to drill in ANWR, only to be blocked by one or another president or House of Congress.

For the most part, production in the Global South posed no such complications, at least back then. The Nigerian government, for example, has long welcomed foreign investment in its onshore and offshore oil fields, while showing little concern over the despoliation of its southern coastline, where oil company operations have produced a massive environmental disaster. As Adam Nossiter of the New York Times described the resulting situation, “The Niger Delta, where the [petroleum] wealth underground is out of all proportion with the poverty on the surface, has endured the equivalent of the *Exxon Valdez* spill [of March 1989] every year for 50 years by some estimates.”⁷

As vividly portrayed by author Peter Maass in his book *Crude World*, a similar pattern is evident in many other petro-states where anything goes as compliant government officials – often the recipients of hefty bribes or other oil-company favours – regularly look the other way. The companies, in turn, don’t trouble themselves over the human rights abuses perpetrated by their foreign government “partners” – many of them dictators, warlords, or feudal potentates.⁸

But times change. Many countries in the Global South are becoming ever more protective of their environments, ever more inclined to take larger cuts of the oil wealth of their own countries, and ever more inclined to punish foreign companies that abuse their laws. In February 2011, for example, a judge in the Ecuadorean Amazon town of Lago Agrio ordered Chevron to pay \$9 billion in damages for environmental harm caused to the region in the 1970s by Texaco (which the company later acquired).⁹ Although the Ecuadorians are unlikely to collect a single dollar from Chevron, the case is indicative of the tougher regulatory climate now facing these companies in the Global South. More recently, in a case resulting from an oil spill at an offshore field, a judge in Brazil seized the passports of 17 employees of Chevron and US drilling-rig operator Transocean, preventing them from leaving the country while the spill was being investigated.¹⁰

In addition, production is on the decline in some Global South countries like Indonesia and Gabon, while others have nationalised their oil fields or narrowed the space in which private international firms can operate. During Hugo Chávez's presidency, for example, Venezuela forced all foreign firms to award a majority stake in their operations to the state oil company, *Petróleos de Venezuela S.A. (PdVSA)*. Similarly, the Brazilian government, under former President Luiz Inácio Lula da Silva, instituted a rule that all drilling operations in the new "pre-salt" fields in the Atlantic Ocean – widely believed to be among the biggest oil discovery of the twenty-first century – be managed by the state-controlled firm, *Petróleo de Brasil (Petrobras)*.¹¹

2 • Fracking Our Way to a Toxic Planet

Such pressures in the Global South have forced the major US and European firms – BP, Chevron, ConocoPhillips, ExxonMobil, Royal Dutch Shell, and Total of France – to look elsewhere for new sources of oil and natural gas. Unfortunately for them, there aren't many places left in the world that possess promising hydrocarbon reserves while also welcoming investment by private energy giants. That's why some of the most attractive new energy markets now lie in Canada and the US (or in their offshore waters), where governments are proving more receptive to oil and gas extraction. As a result, both are experiencing a remarkable uptick in fresh investment from the major international firms.

Both countries still possess substantial oil and gas deposits, but not of the "easy" variety – deposits close to the surface, close to shore, or easily accessible for extraction. All that remains for large-scale exploitation are "tough" or "unconventional" reserves – those found deep underground, far offshore, or deemed hard to extract and process. Although plentiful, these tough reserves can only be exploited using aggressive technologies that are likely to cause extensive damage to the environment and, in many cases, human health as well. They must also find ways to gain government approval to enter environmentally protected areas now off limits.¹²

The formula for making North America the “Saudi Arabia” of the twenty-first century is grim but relatively simple: environmental protections must be eviscerated and those who stand in the way of intensified drilling – from landowners to local environmental protection groups – must be bulldozed out of the way. Put another way, North America will have to be “Third-Worldified”, in the same way that countries of the Global South were exploited by foreign companies with little or no regard for the local environment or the people living there.

Consider the extraction of shale oil and gas, widely considered the most crucial aspect of Big Oil’s current push back into the North American market. Shale formations in Canada and the US are believed to house massive quantities of oil and natural gas, and their accelerated extraction is already helping reduce the region’s reliance on imported petroleum.

Both energy sources, however, can only be extracted through a process known as hydraulic fracturing (“hydro-fracking,” or just plain “fracking”) that uses powerful jets of water in massive quantities to shatter underground shale formations, creating fissures through which the hydrocarbons can escape. In addition, to ease the escape of the oil and gas from these fissures, the fracking water is mixed with a variety of often poisonous solvents and acids. This technique produces massive quantities of toxic wastewater, which can neither be returned to the environment without endangering drinking water supplies nor easily stored and decontaminated. Failures by the drilling companies to ensure the safe removal and storage of the wastewater has resulted in numerous reports of leakages, in some cases endangering local drinking water supplies.¹³ The pumping of wastewater into underground storage basins can also trigger earthquakes, a danger noted with greater frequency in Ohio and Oklahoma, where the practice is widespread.¹⁴

The rapid expansion of hydro-fracking would be problematic under the best of circumstances, which these aren’t. Many of the richest sources of shale oil and gas, for instance, are located in populated areas of Texas, Arkansas, Ohio, Oklahoma, Pennsylvania, and New York. In fact, one of the most promising sites, the Marcellus shale formation, abuts the watershed area for one of New York City’s largest reservoirs. Under such circumstances, concern over the safety of drinking water should be paramount, and federal legislation, especially the Safe Drinking Water Act of 1974, should theoretically give the EPA the power to oversee (and potentially ban) any procedures that endanger water supplies.

However, oil companies seeking to increase profits by maximising the utilisation of hydro-fracking banded together, put pressure on Congress, and managed to get itself exempted from the 1974 law’s provisions. In 2005, under heavy lobbying from then Vice President Dick Cheney – formerly the CEO of oil services contractor Halliburton – Congress passed the Energy Policy Act, which prohibited the EPA from regulating hydro-fracking via the Safe Drinking Water Act, thereby eliminating a significant impediment to wider use of the technique.¹⁵

3 • Third Worldification

Since then, there has been a virtual stampede to the shale regions by the major oil companies, which have in many cases devoured smaller firms that pioneered the development of hydrofracking. In 2009, for example, ExxonMobil paid \$31 billion to acquire XTO Energy, one of the leading producers of shale gas.¹⁶ The other large firms, including Chevron, have also acquired the drilling rights to vast swaths of shale lands in Texas, Pennsylvania, and elsewhere.

As the extraction of shale oil and gas has accelerated, the industry has faced other problems. To successfully exploit promising shale formations, for instance, energy firms must insert many wells, since each fracking operation can only extend several hundred feet in any direction, requiring the establishment of noisy, polluting, and potentially hazardous drilling operations in well-populated rural and suburban areas. While drilling has been welcomed by some of these communities as a source of added income, many have vigorously opposed the invasion, seeing it as an assault on neighborhood peace, health, and safety.¹⁷ In an effort to protect their quality of life, some communities in Texas and Pennsylvania adopted zoning laws that banned fracking within town limits. Viewing this as yet another intolerable obstacle to their pursuit of profit, the industry has put intense pressure on friendly members of state legislatures to adopt laws depriving most local jurisdictions of the right to exclude fracking operations. "We have been sold out to the gas industry, plain and simple," said Todd Miller, a town commissioner in South Fayette Township, Pennsylvania, who opposed the legislation.¹⁸

If the energy industry has its way in North America, there will be many more Todd Millers complaining about the way their lives and worlds have been "sold out" to the energy barons. Similar battles are already being fought elsewhere in North America, as energy firms seek to overcome resistance to expanded drilling in areas once protected from such activity.

In Alaska, for example, the industry is fighting in the courts and in Congress to allow drilling in coastal areas, despite opposition from Native American communities which worry that vulnerable marine animals and their traditional way of life will be put at risk. In his last months in office, President Barack Obama employed a long-forgotten law, the Outer Continental Shelf Lands Act, to ban most drilling activities in Alaskan waters.¹⁹ However, under his "America First Energy Plan," President Donald Trump has announced plans to open up these waters to oil and gas drilling.²⁰

And this is just the beginning. To gain access to additional stores of oil and gas, the industry is seeking to eliminate virtually all environmental restraints imposed since the 1960s and open vast tracts of coastal and wilderness areas, including ANWR, to intensive drilling. It also seeks the construction of the much disputed Keystone XL pipeline, which is to transport synthetic crude oil made from Canadian tar sands – a particularly "dirty" and environmentally devastating form of energy – to Texas and Louisiana for further processing. President Obama sought to prevent installation of the Keystone pipeline, but President Trump has given it his approval and construction is expected to begin shortly.²¹

Indeed, the energy industry expects unstinting support from President Trump as it moves to eliminate any and all impediments to oil and gas extraction on US territory. “For too long, we’ve been held back by burdensome regulations on our energy industry,” the administration’s “America First Energy Plan” avows.²² “President Trump is committed to eliminating harmful and unnecessary policies such as the Climate Action Plan”²³ – a measure adopted by President Obama to reduce carbon emissions from the burning of fossil fuels. Moreover,

*The Trump Administration will embrace the shale oil and gas revolution to bring jobs and prosperity to millions of Americans. We must take advantage of the estimated \$50 trillion in untapped shale, oil, and natural gas reserves, especially those on federal lands that the American people own.*²⁴

This includes wilderness areas like the Arctic National Wilderness Area, which Trump hopes to open for drilling in the near future.²⁵

During the presidential election campaigns of 2012 and 2016, the oil and gas industry – through its trade association, the American Petroleum Institute (API) – ran advertisements suggesting that the increased domestic production of fossil fuels offered the US its best option for securing economic prosperity and energy independence, whereas greater environmental regulation and an emphasis on green energy would endanger those objectives. “There [are] two paths that we can take” on energy policy, the API campaign site proclaimed. “One path leads to more jobs, higher government revenues, and greater US energy security – which can be achieved by increasing oil and natural gas development right here at home. The other path would put jobs, revenues and our energy security at risk.”²⁶

According to the energy industry, we are at a fork in the road and can either choose a path leading to greater energy independence (via fossil fuels) or to ever more perilous energy insecurity (without them). But there is another way to characterise that “choice”: on one path, the US will increasingly come to resemble an old-fashioned Third World petro-state, exploited by big energy companies, with compliant government leaders, an increasingly money-ridden and corrupt political system, and negligible environmental and health safeguards; on the other, it would prioritise greater investment in the development of renewable alternative energies, and guaranteeing strong health and environmental regulations and robust democratic institutions.

How we characterise our energy predicament in the coming decades and what path we ultimately select will in large measure determine the fate of the US, and every other nation.

NOTES

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