Will falling oil prices change future of fracking in N.C.?

The big news in energy is falling oil prices. The price of West Texas Intermediate crude, the U.S. benchmark, was $104 per barrel as recently as late July. Since then it’s fallen by about a third and is currently under $70.

All of a sudden, people are talking about lower fuel prices providing economic stimulus, encouraging the purchase of big SUVs and making hydraulic fracturing, or “fracking,” unprofitable.

First, a little context. Oil prices started rising in the mid-1990s after being flat for more than a decade. At first, the increases weren’t noticeable, but people begin paying attention during the Katrina crisis in 2005. During the first half of 2008, oil prices rose sharply and came within shouting distance of $150 per barrel. The worldwide recession drove prices down to around $30 in late 2008. Since then prices have rebounded.

We’ve seen drops like this even during the rebound. Prices fell by 30 percent between April and October of 2011, by about the same percentage between February and July 2012, and by nearly 20 percent between August 2013 and January of this year. Oil prices are highly variable, and if they fall no further, this will be just the latest big swing in a volatile market.

The recent drop appears to be the result of three factors. The first is weakening demand in economies around the world. The second is increasing production of so-called “tight oil,” mostly from shale and tar sands in the U.S. and Canada. And the third is the recent decision by the Organization of the Petroleum Exporting Countries (OPEC), led by its price enforcer, Saudi Arabia, not to cut back on production to support prices.

How much of the price drop is due to lower demand for oil? After all, recessions lead people to drive less and businesses to produce less. The economies of Europe and Japan are extremely anemic right now, and the same is true of many other economies around the world. For countries like Russia that depend heavily on income from oil exports, lower oil prices will likely exacerbate the situation.

As it happens, many other commodity prices have fallen off significantly since mid-year. It isn’t just oil. The Bloomberg commodity index is down nearly 20 percent. Metals like copper and aluminum, as well as agricultural products like corn and cotton, are trading at or near the bottom of their 52-week price ranges. Not all of the drop in oil prices can be explained by falling demand, but it’s clearly part of the story.

The other part is the surge in tight oil. Presumably, OPEC’s move is an attempt to make oil so cheap that it will force shale oil and oil from tar sands out of the market. It pays to frack for shale oil at $100 barrel, but what about $40?

Unfortunately for OPEC, the cost of producing shale oil has been falling. It used to be thought that shale oil couldn’t be feasible at prices below $75 per barrel. But data from North Dakota, one of the country’s biggest shale plays, show that costs are averaging about $40 per barrel and in some districts it’s around $30. Shale oil won’t disappear at $65 per barrel.

The next year will tell us what kind of waiting game OPEC is willing to play and whether it might work. If prices remain low, we’ll see whether it changes the prospects for fracking in North Carolina.