Falling Oil Prices Reveal America's Fracking Trap -- And Saudi Arabia's Continued Energy Dominance

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Barnett and Fayetteville reservoirs

world without OPEC

Saudi Arabia's ability to cover its civil service salaries, fuel subsidies and other budget
depenses.

Beyond shocks in emerging markets, Asia's resource-hungry nations will continue to
find themselves reliant on OPEC.

Just a year ago, two-thirds of America's oil imports came from OPEC. Now, in the
wake of falling oil prices, America has become a net exporter of oil.

Well, what about "the end of the Middle East?" Surely low oil prices are hammering
America's fracking revolution into a low-cost energy solution.

This is a comforting tonic to liberal policy circles. At last, America can become a

The need to drill horizontally means more acreage -- and as producers fork out cash for royalties to private landowners, more acreage means a bigger bill. Now we see why about 60 wells per year to maintain the same level of oil production in Iraq.

What is the real cost of shale oil? Shale reserves are trapped in densely packed layers of rock. In order to penetrate the rock, companies must employ sophisticated technology to drill down horizontally -- sometimes up to three miles -- and "frack" it with a mixture of water, sand, and "proppants" to allow the resources to escape.

The shale industry has been scrapping away at the profit margins of the Middle East, where resources are often easily extracted from the sandstone and shale formations that surround it.

The high cost of shale production. In spite of the wonders of Silicon Valley, technology will not magically transform America's fracking revolution into a low-cost energy solution.

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Finally -- and this may be the death knell for America's fracking boom -- shale wells
produce far more water than oil. The more they drill, the more they have to pump out
water to keep oil production at a sustainable level. After all, it costs $10 for every well
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