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AMERICAN OIL: OUR BRIDGE TO THE FUTURE

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Mr. Miller presented this paper during the Center for Constructive Alternatives seminar on "Energy."

I don't want any misunderstandings about where I come from or what I am. I'm an oil man. I believe in the private enterprise system and in the incentive of profit. I don't make any apologies for the profit system because it is one of the factors that has made this a great country.

I've never had another job but the oil and gas business. I went into the oil fields straight out of high school, dressing tools on a cable tool rig. In case that term is unfamiliar to you, it means the idiot end of a sledge hammer. It was a very challenging job and one that you didn't have to work at very long to figure out that there was something else you would rather do.

I have found the oil and gas business to be one where the competitive spirit is good—the opportunity for success is there. And, as I say, I don't apologize at all for being in the business. I think it would be ridiculous for someone in the oil and gas business to go around the country with hat in hand saying that he was sorry for being part of an industry that provides the fuel for some 42 million homes and 110 million private automobiles in this country. Our industry has provided the fuel for the greatest development, and the greatest lifestyle, ever known on this earth. I'm very proud of the oil and gas industry and I'm proud to be part of it.

What lies ahead for the industry? Recently Mr. Schlesinger of the Department of Energy promised a golden age for the oil industry for the next twenty years. But there was one little string attached. We wouldn't get it unless the oil men would help, rather than hinder, President Carter in getting his energy program through Congress. I can't speak for everybody in the business, but I don't want any part of a federal energy program. I have had plenty of first-hand experience with government interventions in our business—all of it unpleasant. In fact, I believe the oil and gas industry is rapidly being destroyed by government actions.

To see how this is happening, let's look at some facts. Back in 1922, the portion of energy derived from oil and gas in this country was 23 percent; in 1952 it was 63 percent; and last year, 76 percent. Obviously we have had a continuous and ever-growing dependence on hydrocarbon fuels. Oil and gas are vitally important to how we survive and progress. What got us to this point was the ability of the industry to provide vast amounts of oil and gas, cheaply, and still make a profit. But we are losing our ability to do this because government regulations and price ceilings are making it harder and harder to earn a profit.

As a result, the industry is shrinking. In 1956, we were drilling about 57,000 wells per year in this country. We had 2,650 active operating rigs. We had 20,000 people like myself, independent oil and gas operators, and we had 2 million barrels a day of surplus producing capacity. By 1971 the number of operating rigs had dropped from 2,650 to 950. Half of the independents had gone out of

im•pri•mis (ĭm-prī′ mĭs) adv. In the first place. Middle English, from Latin in primis, among the first (things). . .

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business. Well drilling had dropped from 57,000 wells to 27,000 wells a year, and we were more than 25 percent dependent on foreign sources. This is not a picture of a prospering industry.

When the oil embargo hit in 1973, people suddenly began to wonder how we had become so dependent on foreign sources. Many thought it was the first time we had had an interruption in supply. In fact, it was the thirteenth interruption since we began importing oil. But it was the first time the American public ever had to wait in line to buy gasoline, except in wartime. And that got the public's attention in a hurry. People began to talk about an energy crisis.

At that time I had just taken on the presidency of the Independent Petroleum Association of America. This association is made up of some 4,000 independent operators across the United States who put together drilling prospects, explore, drill, and produce oil and gas. We found that by the time the embargo was imposed half of the country's independents had gone out of business. Ten thousand of them had quit.

One of my first duties for the association was testifying at a hearing before Senator Jackson and his committee. Senator Jackson told me that he thought some things ought to be done about the oil and gas industry. One of the things he advocated was rolling back the price of domestic oil because the price of imported oil had gone up. "Now wait," I replied in disbelief, "you want to roll back the price of my oil because my foreign competitor raised the price of his?" That certainly won't offer any incentive to develop domestic oil. It would be like slapping my children to make the neighbor's children behave. The Senator allowed that I might be right.

In a later discussion, Senator Jackson suggested that people had gone out of the oil business because of a conspiracy. I had trouble replying because it was obvious that he was sincere and thought that ten thousand independents had actually conspired together to go out of business. Perhaps he thought that these people, many of whom have degrees in geophysics, geology, and engineering, got together and vindictively elected to go to work as shoe clerks and insurance salesmen.

We had some further discussion about it and the Senator asked me why the oil and gas industry had declined to less than half its well drilling rate since the mid-1950s. I gave him this factual illustration from my own experience. In 1958, my brother and I drilled a well near Ludington, Michigan. We sold the oil from that well for $2.95 per barrel. Fifteen years later, just before my discussion with Senator Jackson in 1973, we drilled another well. This second well was drilled 2½ times as deep as the first, and it was seven times more expensive to drill. We sold the new oil for $2.95 per barrel.

If you are alive and breathing and well, you know it is absurd that anyone in any business went for that period of time without an increase in the price they were receiving for their product. Our labor costs went up as much as in any other business. Our costs of raw materials, land, exploration, drilling, and every other part of the business went up. Practically all consumer prices, from sandwiches to college educations, went up dramatically in those years—but not the price of oil. Why? What restrained the price of oil?

It was purely and simply government intervention. In 1954, the federal government became involved in setting the price of gas that flowed from one state to another. The Federal Power Commission arbitrarily set an artificially low price on any gas that moved in the interstate market. From that time forward, all other fuels, and particularly hydrocarbon fuels, had to compete against this low price for natural gas. No fuel price could rise much without losing its market to natural gas. As you may recall, many homes in the United States changed from coal and fuel oil to natural gas. Natural gas, which had been premium fuel, started to be used for fireplace lighters (in place of kindling), in decorative lights in all of the newly developed malls, and in gaslights at the end of driveways. It was so cheap that you could waste it and hardly notice it on the gas bill. This artificially priced fuel restrained the price of domestic oil, which led to the grievous decline in the oil business. In 1973, when the embargo hit, we were over 30 percent dependent on foreign oil and are even more dependent today.

For the past four years Congress has addressed itself to the energy problem in a variety of ways. In one short period, over 2,000 bills concerning energy were introduced into Congress. Sixty-five committees, sub-committees and agencies all claimed jurisdiction over energy. Congress debated the issues for almost three years; the sum total of their action was to pass a 55 mile per hour mandatory speed limit. That was all. And it didn't work. After a short period gasoline consumption was on the rise again.

Let us turn to what has happened in the oil business since 1973. In 1973, the price of oil went up. OPEC oil prices quadrupled. All of the oil in the United States that was found before 1972 was categorized as old oil and its price was frozen. This price is now fixed and averages about $5.25 a barrel. The only exception is so-called stripper oil. This is oil from wells that produce less than ten barrels per well per day. Because it is impractical to fix the price of these minimal amounts of oil, stripper oil is allowed to go at the market price. Congress promised to let all of the oil found after 1972 be sold at the free market price. However, at the end of 1975 when President Ford signed a bill called EPCA, his signature put all oil, except stripper oil, under price controls. In fact, the bill rolled back the price that had been promised for the newly developed oil and substituted a concept called composite pricing, which means bureaucrats set the price, to conform to a legislated average. The industry protested, pointing out that we needed more capital to develop more domestic oil. But we were not successful.

At least the fixed price was higher than the old price that had been restrained by cheap natural gas. In response to the higher price, we have seen a decided increase in the oil business. Where we had been down to 950 operating rigs, we are running 2,180 rigs today in the United States. Well drilling is up from 27,000 wells per year to 45,000 wells. I don't have an exact count, but I believe the independents have grown from 10,000 to 12,000-13,000. All of this is due solely to economic incentive. The main thing is that it was an extremely basic philosophy. The one that seems to have been lost in the government, but in recognition of the increased price we have found a decided restoration of activity and so we now come to where we contemplate the future.

Where do we go from here? Of all the energy used in this country, 76 percent is derived from oil and gas—more than three-fourths. What chance do we have to maintain adequate supplies by practicing conservation of oil and gas? None. Conservation will help of course, but it can't do the whole job. If you want to talk about cutting back 10 or 15 percent in oil consumption, we can live with that. Go around and unscrew 15 percent of your light bulbs, and cut your thermostat. But unless we could all do without three-fourths of our energy, we will necessarily remain dependent on hydrocarbon fuels. We have increased our oil imports from about 30 percent in 1973 to 47 percent today. We are dependent on foreign sources for nearly half of our oil—well over one-third of our total energy consumption. Imagine the trouble we would be in if foreign oil supplies were cut off.

We are now spending $45 billion a year to import oil. There are so many zeros in that number it is almost impossible to grasp. But everyone can see what is happening to the value of our dollar. Month after month the value of the dollar keeps falling. The dollar is eroding in proportion to what we are spending for foreign oil. Oil price controls have brought us to an economic crisis.

There is a direct relationship between our energy production and the number of jobs available in America. There are 15 million teenagers and sub-teens in the United States who will hit the job market by 1985. If we are going to have a four percent unemployment rate at that time, we will have to have 46 percent more energy. If we don't get that energy we could be heading for catastrophe.

The President has proposed something called the National Energy Policy. It is ill-named. What it boils down to is a tax program, with enormous tax increases at that. A tax increase will not produce one extra drop of oil. The National Energy Policy is just about the opposite of what Mr. Carter advocated when campaigning for the presidency. In a telegram to the Independent Petroleum Association of America, Mr. Carter stated that he would work for deregulation of natural gas, and encourage recovery from oil and gas wells already in production. He noted, correctly, that an average of 60 percent of our oil remains in the ground after standard recovery methods have been

exhausted. Development of these resources could add up to sixty billion barrels of crude to our domestic supplies. This is twenty years' production at the present rate. Finally, Mr. Carter said he would support policies which assure the continued viability of independent producers, such as the depletion allowance established by the Tax Reduction Act of 1975.

In contrast to these market-freeing policies by candidate Carter, the National Energy Policy would put all natural gas, not only the interstate supplies, under price controls. It would put all oil under price controls except stripper oil. Further, it would impose a tax called COET (Crude Oil Equalization Tax) on all domestic oil, which is now produced at a little over 50 percent of the price of foreign oil, to bring the price of our oil up to the cost of foreign oil. As consumers we would have to pay a much higher price for fuel, yet not one dime of the increase would go back to find more domestic oil or gas. This is nothing more than a huge federal tax increase. It certainly is not an energy policy.

President Carter's plan calls for rolling back the price of all natural gas to $1.75 a thousand. Now, that sounds good to the consuming public. But there is a problem. We're not going to develop any new supplies at that price—far from it. Instead, we'll have to send more dollars abroad to buy gas at much higher prices from foreign sources. We are now attempting to enter into an agreement to buy gas from Mexico at $2.58 a thousand, if they will let us have it. We are paying Canada $2.26 a thousand for their gas and expect an increase in price immediately. We are trying to get liquified natural gas from Algeria for $4.50 a thousand. We are making synthetic gas in Marysville's Michigan Consumers Power Plant at almost $4.00 a thousand.

None of this makes sense to me. The government forces our domestic producers to hold the price of natural gas to $1.75; then we turn around and pay far more for foreign gas. The same policy is applied to oil. The government holds domestic oil prices down to $5.25 a barrel; then we pay $14.50 for imported oil.

This leaves us with only two alternatives. One is to let domestic oil prices rise enough so that we can profitably increase our production. The other is to become more dependent on foreign oil. Anything else is just window dressing.

There are plenty of energy sources available. We have vast amounts of coal. We can get oil from shale. We can get gas from coal. There are many other types of energy available—solar, hydroelectric, nuclear, for example. But I think that we ought to realize that it will take a long time and a great deal of effort before we can actually tap this energy.

For instance, Carl Bagge, the head of the Coal Association, recently testified in Washington. They asked him how much new energy we could get from coal if all the environmental constraints that prohibit the mining of most coal were removed. His reply was that they could not make a significant impact on the energy requirements of this country within ten years. The reasons are obvious. The equipment to mine the additional coal isn't even built yet, much less operational. The companies don't have the capital to buy it, or enough skilled labor to operate the machinery if it were available. Another problem is that the cars to transport coal have all become obsolete, in part because we have been moving out of the coal business. Most of our railroad track is in bad shape and more and more of it is being ripped out. We couldn't move the coal if we got it.

I have heard similar testimony from experts on nuclear energy. They estimated that if all the environmental constraints were removed, and a major nuclear power program were begun, we could increase our overall energy supplies by four percent in ten to twelve years. That's all.

The point I am making is this: there is no bridge from where we are to *any* energy supply in the future except oil and gas. That is all we have. We can't simply switch to coal, solar, nuclear, or any other energy source. The changeover would take ten to twenty years or more. The only energy supply we have that will get us through those years and into a future of renewable resources is oil and gas.

The only question is, where will the oil and gas come from? I don't have any confidence in a program that makes this country even more dependent on high cost foreign fuel. Moreover, the General Accounting Office of the United States argues that the conservation provisions of the program are not likely to cause much reduction in energy demand. Unless demand is successfully reduced, the level of imported oil is likely to be 10.3 million barrels a day by 1985 instead of the 6 million the President was talking about. This would leave us more than 50 percent dependent on foreign oil.

The answer is the private development of the oil and gas resources in this country. This would keep the jobs here, it would keep the dollars here, and it would make the country a lot more secure. And the job will get done if we let private producers handle it. I've never met a bureaucrat who can bring one barrel of oil out of the earth.