THE INDEPENDENT PRODUCERS AND ROYALTY OWNERS (ESCAPE FROM ABUNDANCE)

Jerome J. O'Brien*

ABSTRACT

Throughout its history the U. S. oil industry has been characterized by repeated warnings of oil shortage and continual oversupply. Cassandras of industry and government have periodically foreseen the last drop of petroleum beginning with a prediction made shortly after the discovery of Drake's well. The excess of supply has been especially painful in recent decades, as illustrated by the conditions resulting from discovery of the East Texas field in the early Thirties.

Oversupply—or "under-marketing"—of natural gas has been the corollary to excess oil. The waste of gas was flagrant before markets were developed for it, and these were retarded in their development by lack of transportation and distribution systems. This condition has been eliminated to the extent that the Federal Government, for the ostensible purpose of assuring future supplies of gas at "reasonable" prices, has imposed controls on prices and distribution.

The oil industry today is still characterized by great oversupply and paradoxical predictions of shortage. Reasons for the domestic superabundance lie in (1) a prolific economy, where private ownership of reserves and private initiative in their development have been coupled with wise governmental policies aimed at stimulating discovery and production; (2) conservation, which has tremendously increased productive capacity; (3) technological and geological advances which have increased both discovery and recovery; (4) heavy imports of foreign oil and products; (5) to some extent, the shifting of demand to other fuels, such as natural gas; (6) an unexpected decline in demand in the past two years.

Some of these causes are natural, some result from the industry's own super-efficiency, some may be attributed to the creeping paralysis of federal control, and some to public governmental complacency or indifference to the welfare of the domestic oil industry.

We may reasonably expect the oil industry of the future to be characterized, again, by (1) prediction of shortage and (2) oversupply. A number of changes may be in the offing, because certain facts are now assuming importance:

(1) World oil prices are based on the U. S. price. Domination of the U. S. market by foreign oil can undermine the price structure the world over, render most U. S. oil uneconomic overnight, and cheapen even the fantastically abundant reserves of the Middle East. It remains to be seen whether the international companies and the Federal Government intend to let this happen.

(2) Foreign oil is getting more costly to the producer companies. Proprietor governments are demanding more and more of the oil dollar, and foreign companies such as those in Italy and Japan are negotiating Middle East concessions which break the 50-50 profit tradition increasingly in favor of the governments owning the oil.

(3) Artificial cost advantages accruing to foreign production may begin disappearing. Tax differentials, tanker subsidies and the like, granted by the Federal Government to stimulate overseas development, are not likely to go on indefinitely in the face of mounting oil surpluses and the competition of foreign countries for the U. S. market.

(4) Possible action of the Federal Government could change the oil industry both here and abroad. The Justice Department is up against the question of whether U. S. antitrust laws shall apply to operations of U. S. companies in foreign lands; the posted price system is under antitrust attack; the Justice Department is openly concerned about competition, or the lack of it, in pipelining, transportation, marketing and production; the depletion provision is likely to undergo a searching analysis in Congress in the near future; and state governments are becoming increasingly aware of their powers and obligations in the field of preserving competition and maintaining good conservation.

(5) To some extent, conservation might lose out, in the future, to economics—in spite of awakened state responsibility in this field. In the effort to conserve *all* our oil resources, the point of diminishing returns could be reached and conservation could be outweighed by economic considerations. Some of our most precious principles of equity could come under attack, as well as some principles which are not so precious but are of long standing.

(6) The possibility of the extension of FPC control over oil production will undoubtedly draw closer unless a vigilant industry takes steps to forestall it. One of the most necessary steps is to get federal legislation removing utility-type controls from production of gas.

(7) The energy requirements of the Free World outside the United States are predicted to increase 5% per year, while the energy requirements within the United States are predicted to increase only 3% per year, which is less than was predicted some 18 months ago.

There is nothing certain in this world except change. The future calls for industry statesmanship and wise leadership. The domestic industry must remain dynamic and able to meet every problem by changing in the *right* direction. The domestic oil industry, so vital to the economy and security of the nation, walks a narrow path between economic obsolescence, due to foreign competition and general over-supply, and on the other hand federal regulation. It must walk circumspectly and resolutely.

* Vice President and Mgr. of the Mid-Continent Division, Monterey Oil Company.