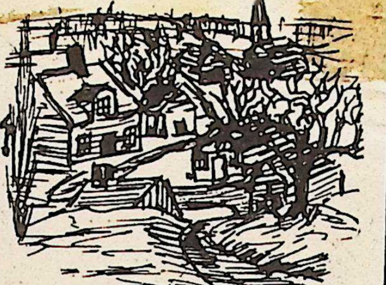
Village View

by Andrea Leonard



All of us are affected by the energy crisis; some more than others, perhaps, but no one is immune.

All of us are confused by fuel shortages; and no wonder.

Everyone is looking for a fall-guy -- the government, the companies, environmentalists, the Arabs -- someone to blame it on -- some place to direct our frustrations.

On one hand we're informed there's a shortage of fuels of all kinds; on another, study reveals our reserves are high.

Oil companies deride the complexities of government regulations and lack of a coherent and comprehensive energy policy.

Government Cost of Living Council has imposed controls to protect, they say, the consumer.

The consumer sits in gas lines, all over the country, at 6:30 in the morning, waiting for the privilege of buying enough gas to get to work, if he still has a job, at 50¢ to 60¢ a gallon.

Oil companies report net income increases in millions of dollars in 1973, as compared to 1972.

Earnings per share of oil common stocks have improved 26% between 1972 and 1973. OIL continues to forecast increases of at least 30% per share in earnings for 1974.

These figures are those of OIL: they assume a continuation of current price controls.

OIL financial statements emphasize that reliance on imports has grown so dramatically that domestic oil companies have lost control over prices they must pay for imported crude.

Because of price controls, they assert, domestic producers are forced to sell off inventories and reserves accumulated over the years at prices far below the world market.

The sale of essential domestic commodities at only a fraction of their free world market price makes it impossible to replace (much less increase) domestic reserves of these materials, according to OIL.

No consideration is given, apparently, to production cost of the materials; only what the market will bear. It is certainly true that foreign OIL, as well as domestic, is so marketed.

OIL tells us, "As we become less and less able to supply our own domestic requirements, and rely more and more on imports, our suppliers have an undisputed upper hand at the bargaining table -- they demand and receive higher and higher prices for their products".

What OIL is saying is true. When OIL received an average price for crude, until August, 1972, of $3.63 a barrel, and then through August, 1973, $3.87 a barrel, and in September, 1973, $4.44 a barrel, foreign-produced crude was delivered in Texas in September at more than $8 per barrel.

That kind of price differential is important. OIL wants to be allowed to increase prices of domestic oil to those same levels.

Otherwise, they argue, our reliance on foreign sources will become greater and the cost dearer.

A major refinery proposed by Occidental Oil in Machiasport, Maine, in the late '60s was not stopped by environmentalists (although some serious environmental questions were involved) but rather, primarily, by the influence of the giant international oil companies.

The Machiasport refinery would have required a large amount of imported oil, a threat to other oil companies' profits which depended in part on keeping prices up by keeping what was then cheap foreign oil (even when it was oil owned by them) out of the country.

Business Week, (May 17, 1969): "What they lose by having their excess crude kept out of the country, they gain back by having a profit floor under their extensive U.S. operations."

The economic fact is that both refinery capacity and total crude oil available on the U.S. market have been kept low to maintain oil profits. The cost to the consumer is estimated by a well-known economist at $4 million per year over what we would have paid in a free, competitive market.

Until recently total domestic refining capacity was well ahead of available crude supplies, exceeding crude availability in some years by as much as 16 per cent, according to Statistical Abstract, U.S. Dept. of Commerce, 1972, page 658.

If domestic capacity of crude should rise higher than refinery capacity, perhaps we can fall back on refineries owned by U.S. companies in the Caribbean while we wait for additional refinery construction.

Conservation of energy, as urged by OIL, and conservation of the environment, as urged by ecologists, can result in saving fuel and improvement of environmental quality.

The power of OIL to announce a crisis, create a shortage, and force prices up has been amply demonstrated. As long as there are no effective social controls over the energy industry, OIL will have tremendous power to affect supplies and prices of energy reserves and resources -- and to affect our economy and environment in significant ways.

Wouldn't it be wonderful if OIL could see its way clear to bending efforts to finding new sources of ENERGY instead of new sources of oil, which -- by its own admission -- is limited and being rapidly depleted? Then the rape of the consumer mightn't be quite so outrageous.

What OIL seeks is enough profit for exploration and development of new reserves from the proceeds of existing reserves.

OIL profits and cash flow, they say, remain too low to support the level of capital expenditures to meet their obligations to the nation in helping to solve growing energy and natural resources shortages.

OIL must be able to receive the same price from resources produced in this country as can those producing and selling these same materials in all other areas of the world.

That, in short, is OIL's position; That's the reason for the 50% rise in gasoline prices.

Obviously, however, price controls have done nothing to protect the consumer. How has OIL managed to overcome the price controls imposed by Congress that holds them back from greater production to meet the demand?

The Cost of Living Council set price controls on oil produced by old wells but allowed an increase in prices of oil from new wells. At first, this was a limited increase, but in November 1973 oil from new wells was completely decontrolled.

Encouraged, OIL shut down old wells and raised prices on oil from new wells. OIL, in fact, does not claim an absolute shortage in this country of oil reserves or producing wells; OIL does claim we're coming to the end of oil that's relatively easy - and cheap - to reach.

Stimulated by higher prices, it may be surprising what they can produce.

It's been suggested the major bottleneck is at the refineries. It's true there's been little investment in new refineries in this country in recent years; most new refineries build by U.S. OIL have been constructed in the Caribbean Islands.