

VIEWPOINT

We dare not ignore the warning signs

by Charles J. DiBona, President
American Petroleum Institute

Danger signs for the future supply of U.S. energy are appearing and the nation would be wise to heed them.

Reserves of oil and natural gas are declining, exploratory drilling is down and dependence on foreign oil is up. The basic trends result from the cyclical nature of the petroleum business, but the ups and downs can be either eased or exacerbated by government decisions.

Specifically, government actions today can have an enormous impact on how much our reliance on imported oil grows between now and 5, 10 or 15 years from now.

For example, some of the tax proposals in the initial Treasury Department staff report released in late 1984 would not only guarantee a continuation of today's adverse trends but also — by making it more difficult to find and produce domestic oil and natural gas — could turn increased dependence into disastrously high dependence.

Americans need look back no farther than the 1970s to be reminded that anything that increases U.S. vulnerability to interruptions of foreign oil shipments is bad news for consumers.

To maintain current levels of petroleum reserves and production, oil companies will need to find some 50 billion barrels of oil within the United States and its offshore waters by the end of this century, which is a mere 15 years away.

Finding that much oil in so short a time — 180 percent of today's proved reserves of just under 28 billion barrels — would be a tremendous achievement. But it won't happen if recent trends are permitted to continue.

Consider what has happened recently:

- U.S. proved reserves of oil and natural gas have declined by about 30 percent since 1970. From 1971 through 1983, this country used up 41 billion barrels of oil reserves and found only 30 billion barrels to replace them. It used 255 trillion cubic feet of natural gas while finding only 165 trillion cubic feet.

- Exploratory drilling for oil and natural gas is down almost 30 percent since its peak in the fourth quarter of 1981. The number of successful wells dropped by 42 percent in the same period, foreshadowing further declines in proved reserves.

- After years of decline, U.S. oil consumption increased more than 3 percent in 1984 — the first year-to-year rise since 1978.

- Oil imports last year increased 8 percent, after four years of decline. The United States buys roughly one-third of

its oil supplies from foreign countries. If present trends continue, the level of dependence could rise to one-half or more of U.S. oil consumption by the early 1990s.

In view of those adverse trends, the late-1984 Treasury Department staff proposals affecting energy are all the more alarming. They would reduce the availability of capital and erect new obstacles to investment in oil and gas exploration and production.

Petroleum company estimates indicate that adoption of the original Treasury staff proposals would reduce U.S. petroleum production by the equivalent of 1.1 million barrels of oil a day by 1990, compared with production under current tax laws. The decline could reach 1.5 million barrels a day by 1995 — an amount which could have a substantial effect on U.S. energy security and on world oil prices.

A major reduction in U.S. oil production would weaken America's national security and its ability to conduct foreign policy from a position of strength. It would also adversely affect the U.S. balance of payments, reduce real gross national product and increase the rate of unemployment in this country. Reducing the supplies of oil and natural gas available to American consumers would return to foreign oil-exporting nations a substantial amount of the influence they held over the U.S. economy in the 1970s.

All individuals and corporations should pay their fair share of taxes. The petroleum industry supports efforts by Congress and the administration to design a truly effective federal tax system — one that is both fair and simple. But, on average, petroleum companies already pay double the taxes of other industries, while petroleum profits (return on investment) are in line with those of all manufacturing industries. In the four years 1980-1983, oil companies paid some 44 percent of their pre-tax income to the federal government in taxes, compared with an average of 23 percent for other manufacturers.

The United States needs to develop and implement energy policies that will move this country toward a higher level of energy independence. Those policies should include encouraging and permitting timely, environmentally sound exploration of federal lands, both onshore and offshore; ending the remaining federal controls on natural gas; and avoiding special taxation of the oil industry that reduces the funds needed for exploration.

That is the way to help assure that America's future energy needs are met.