

Prospects for Fuel for Fishing¹

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I was particularly pleased to be asked to talk to you ladies and gentlemen today, because of the very close relationship the fishing industry and the oil industry have developed over the last several years. To a very large extent, especially in the Gulf of Mexico, we both derive our living from the sea. Of course, the difference is that you gather your raw material *from* the sea itself and we in the petroleum industry draw our raw material from *beneath* the sea. I think the evidence here in Louisiana indicates such multiple use of the offshore environment is compatible.

For the past 10 years, fish and shellfish resources in the Gulf and Caribbean have furnished more than 25% of the tonnage required for United States consumption for food and for industrial purposes. Of course, to continue to harvest these resources you need fuel for your vessels. Today I would like to talk about how we in Shell see the diesel fuel outlook for marine consumption and to try and explain the energy situation and how we got where we are today. I must point out that these conclusions and opinions have been developed by Shell. I cannot speak for the industry in general, although much of what I say applies to the whole of the oil and gas business.

I'd like to begin by explaining Shell's supply position on diesel fuel and then comment on the *mandatory middle distillate fuel allocation program*, which goes into effect November 1, 1973. Please understand that Shell Oil Company is not in a position to and cannot be responsible for your understanding of your rights and responsibilities under the mandatory federal program. We can only suggest that you seek counsel from the proper authorities with respect to any problem you may have.

Now let's discuss the diesel fuel supply position: Will there be enough diesel fuel to meet all our needs? I wish I could give you an unqualified "yes" or "no" answer so that you might have the advantage of planning your operations accordingly. Unfortunately I cannot. There are too many uncertainties over which we have little or no control that influence the answer — the weather, the crude oil supply and the mid-east situation, for example. Now, our studies within Shell point toward a probably industry-wide diesel and heating fuel shortage this winter of at least 1 to 2%. I might point out that this amounts to in excess of 10 million barrels — a substantial volume. But let me try to explain this

¹Editor's note: The reader should recognize that this paper was presented October 31, 1973 and there have been drastic changes in the energy situation since.

in some detail by approaching it from two directions -- (1) Shell's position and, (2) the industry's position.

First, speaking for Shell Oil Company, I can tell you that we hope to make available for sale the same amount of diesel fuel this winter as we did last winter, provided there are no hang-ups in our normal refinery operations and we can get the crude oil we need. Because of the product supply problem, Shell initiated a distillate fuels allocation program on January 1, 1973. On June 1 we began allocating motor gasoline for the same reason. As a result, we are not in a position to accept new customers for products covered by allocation, except as dictated by federal mandatory programs.

That's Shell's position. How about the rest of the industry? Latest published statistics indicate industry diesel and heating fuel inventories are running around last year's levels. Shell estimates that the U.S. must import more than 650 million barrels of distillate and residual fuel oil to meet 1973/74 winter demands. This is an increase of more than 50% over last year and with present tight world market conditions, one must seriously ask himself, "Is this possible?" There probably will be a shortage of finished product available for import. Middle East and North African countries have limited their exports of crude oil. This will be especially critical if there is a severe winter in the U.S. or Europe this year, thus causing a rise in demand for heating oils. If we have that hard winter and our refineries are hard-pressed to produce heating oil, a corresponding decrease in the production of diesel fuel will result.

Now let me comment on the mandatory allocation program. I am well aware of your immediate and legitimate concerns over the distillate fuel supply that will be available this winter to the fishing industry. We at Shell share your concern and, as you are aware, have been allocating distillate fuels to all of our customers on a fair and equitable basis since January 1, 1973. However, effective November 1, 1973, the federal government will step in and allocate middle distillate fuels under the Federal Mandatory Middle Distillate Allocation Program. This program looks to 1972 historical purchases as a basis for allocations and has particular definitions as to what type of purchasers are covered by the program. Understand that it is an *allocation* program. That is, the program is designed to take available fuel supplies and allocate, or distribute, those supplies on a historical basis. It does not increase the supply of product. I strongly suggest that you contact your 1972 supplier and/or the Department of Interior, Office of Oil and Gas, to determine your particular rights and responsibilities under this program.

Now, I'd like to go back in time a bit and try and explain the development of the supply problem. We are often asked this question: "How did the problem develop so quickly?" The answer is that it really didn't develop quickly. It was a long time coming. As early as January, 1970, Shell cautioned on the possibilities of shortages. The day we predicted arrived much sooner than we expected. Laws and regulations on ecology, on price controls, on consumer protection hastened its dawning. All of these laws addressed one subject, the nation's historical energy supply pattern, and they changed it. Today's shortages are the result of years of restrictions. Their total effect now cascades upon us. Shell, along with

the National Petroleum Council and the President's Council of Economic Advisors, predicted an increase in product demand annually between 4.3 and 5%. However, the 1973 year-to-date demand actually has been rising at a substantially higher rate. Coupled with this higher than expected increase in demand has been a decline in domestic production of oil and gas.

This identifies the parameters of our present problem. The next logical question is: "What were its contributing factors?" Regulation of natural gas prices was one of the principal causes. The 1954 decision by the U.S. Supreme Court authorized the Federal Power Commission to fix the price of natural gas as it comes out of the well. The result was twofold: On one hand, low prices greatly stimulated demand, but on the other, discouraged exploration for new supplies. The second step came when U.S. import restrictions were removed from residual fuel oil in 1966 and foreign suppliers virtually took over the U.S. East Coast No. 6 oil market. As a result, domestic refiners reduced their outturns of this product to the maximum extent possible due to their inability to economically compete with the imported material at that time. Environmental regulations on sulfur emissions in the air knocked much high-sulfur coal and heavy fuel oil out of the market and limited the possibility of importing high-sulfur crude from abroad. The regulations particularly affect large consumers, factories and utilities. Faced with a growing shortage of natural gas, coupled with environmental regulations against high-sulfur coal and heavy fuel oil, industry turned to environmentally acceptable heating oil. One brief statistic shows the speed and magnitude of this shift. Utilities increased their purchases of distillate fuel by 68% in 1972 over 1971. Demand spiraled rapidly, not only for industrial heating oil, but also for other fuels. Modern autos simply are not as efficient as older models. Ford Vice President, Harold C. MacDonald, notes that the fuel economy of a standard 1973 car is off more than 20% from a 1965 model. By 1975, he says, gas mileage will be off more than 25% from a comparable car of 8 years ago. The Environmental Protection Agency recently released a study of more than 300 autos, domestic and foreign, and reported that present day big cars use twice as much gas as small ones. Remember that the American automobile industry is logging record sales. There are more cars on the road, running less efficiently, and they use more gasoline. Air travel is increasing. The Federal Aviation Administration estimates jet travel will increase at least 250% by 1982, almost doubling the 1972 fuel consumption. One supply factor is dominant: domestic crude oil and gas production is declining in the United States. This country is a very old producer of petroleum products. We've been drilling for oil and gas here for over 100 years. Every year it becomes harder and more costly to find and develop domestic reserves. We have to drill deeper, go farther into the waters of the Continental Shelf and into the Alaskan Arctic. Predictions put the 1973 decline of domestic crude oil production at more than 2% and natural gas production at a level possibly equalling but not exceeding last year.

The supply/demand squeeze on crude oil is not just a U.S. phenomenon. We once considered Canada an ample and reliable source of crude. Canada, however, is straining its capabilities and its government recently began to restrict the flow

from the country. In the past, much of our imports came from Venezuela, but Venezuelan production peaked in 1970 and we cannot look for substantial additional quantities from that country. In the Middle East and Africa, which contain 70% of the world's proven reserves, both production and shipments are being restricted. Crude prices continue to climb. We are now competing for available supply with other industrial nations. Japan, with its booming economy, is a strong bidder for world crude.

Environmental restrictions have added to the problem. This is a statement of fact, not of blame. For example, the Alaskan Pipeline has been delayed by the action of environmentalist groups so that crude oil through the pipeline cannot reach us until at least 1977/1978. Our best prospects for new domestic production lie beneath offshore water, but offshore lease sales have been continually delayed. The use of coal has been sharply curtailed because of restrictions on sulfur emissions. Offshore superports have been delayed, thus increasing transportation costs of imports of crude oil and finished products. Construction of new refineries is hampered by environmental objections to sites, by big construction cost increases, due both to inflation and environmental protection requirements, and by serious doubts about crude supplies. Today, everyone wants the products of a refinery, but few want the refinery itself. Despite the energy problem, refinery construction lags. Several refinery expansions have been announced, but the products from these expansions will not start to flow for years. For a moment, let me cite our own experience. Shell wanted to build a refinery in Delaware on property we had owned for 10 years. It was zoned "heavy industrial" but the Delaware legislature passed a bill barring heavy industry from the coastal area. We were forced to look elsewhere. In this case, emotionalism was permitted to obscure the fact that we are capable of building a clean refinery in harmony with the environment. However, there are signs that the tide seems to be turning on this issue. Several states are aware of the energy shortfalls we face in the future and are becoming more responsive to possible refinery construction. We applaud these state and local leaders who are initiating positive, far-thinking efforts to help solve the energy problem. For only through the cooperation of all concerned will we find the real solutions for the future.

And with the current energy "tightness" more and more concerned people are asking: "Why don't you drill for the potential supply of crude off the East Coast?" I can assure you, we would like very much to open the offshore Atlantic waters to oil and gas exploration. I can think of no better use for one surface acre of the Atlantic Ocean than to place on it a drilling and production platform that would normally be unseen from land and which if successful would provide the raw material to keep 40,000 homes warm and fuel 250,000 cars. All this, while creating what must be considered on the basis of many valid statistics, as very minimal environmental risks or side effects. Considering the lead times involved in drilling and field development, we in Shell have urged that a favorable decision be made to drill as soon as possible. The longer we wait to evaluate our own natural resources, the more dependent we become on foreign imports. We are already beginning to feel the pinch of a world-wide supply

tightness this winter. The longer offshore drilling is delayed the tighter the pinch will become.

I would like to take a moment here to comment on another matter that will be at the crux of the energy situation more and more in years to come -- the rising costs of imported oil. The growing dependence on imports from the Middle East places a serious financial burden on our balance of payments. And adding to the problem is the fact that many foreign producers are beginning to place restrictions on their exports of crude oil and finished product to the U.S. and other countries. The current Mid-East situation has brought this home to all of us. Until the last few years, imported oil was less expensive than domestic oil. Today that is rapidly changing. A barrel of imported crude oil costs from \$5 to \$8 delivered to the U.S. Gulf compared with \$4 to \$5 for a barrel of domestic oil. The political situation in the Middle East may push the price even higher. If we are to import enough crude oil from abroad to keep pace with the rapid rise in American demand, governmental price controls must allow the pass-through of the added cost to the consumer. Otherwise, we must compete on the world market at a distinct disadvantage to buyers from other nations who know no price control restrictions. Phase IV appears to recognize this problem, but a much more flexible and responsive pricing program is needed. However, I believe price controls in general are not the answer to solving our problems. It would be naive to believe that a transition to a market system without price controls would solve all our problems, as if by magic. We are going to have to continue to live with a fuel shortage for at least the foreseeable future. But the point is that one of the artificial, and unnecessary, contributors to the problem -- price controls -- should be eliminated.

A return to a free market system will permit us to better adjust to the tight supply realities that face us. Our difficulty comes, however, in convincing some people outside the industry where the true problems lie. And more than a few of those who remain unconvinced are quite vocal critics of the oil industry. They accuse major oil companies of deliberately creating product shortages and restricting refinery capacities. A recent Harris Poll shows that 20% of the American public believes "large companies are conspiring to raise prices by scaring the public." How do we answer these charges? Speaking for Shell, I categorically deny any question of conspiring or misusing product tightness in any way. Such charges or allegations have no basis in fact and contribute absolutely nothing toward solving the problems we face or providing the public with more product. Charges of monopoly are a bit ridiculous when you realize that oil companies in the United States number in the thousands -- many of which are diversified, covering all aspects of the business. The largest single company has only about 8% of the gasoline market. The public should not be misled into thinking that through governmental action, present petroleum shortages will vanish. So this is the energy situation as we see it at this time in Shell. The picture is not bright.

Having said this, though, I should point out that I am not here as a prophet of doom. There are things we can do to remedy the situation, steps we can take to help. First, some short-term steps: (1) We can maximize domestic refinery

production, and this the industry has done. (2) We can urge energy conservation. We can drive less. We can drive more efficiently. We can watch our heating and air conditioning use. Industry can do its part by using its own fuel more efficiently. For example, Shell has initiated a program to save 3.5 million barrels of oil per year in our own refinery consumption, and has already achieved half this goal. (3) We can eliminate all price controls and return to a free enterprise system. If, however, complete termination of all price controls is not an immediate possibility at this time, we must encourage the institution of incentives to increase imports. (4) Temporarily ease air pollution restrictions, so that industry can use coal instead of oil and gas for power plants and industry.

What can we do for the future? With public and government support and understanding we can: (1) Get the oil and gas from Alaska to the lower 48 states. (2) Explore the offshore resources of the U.S. as rapidly as possible. (3) Encourage nuclear energy development and the building of nuclear energy power plants. (4) Encourage research on alternative energy sources, such as solar and nuclear fusion. (5) Construct new refineries. (6) Construct new superports and tanker loading terminals.

We have talked this morning about the current energy situation. The outlook is not all bad – nor is it all good. It is a complicated problem with many ramifications. But it is a problem that we, as a nation, are going to have to meet and solve. And I believe that one of the best starts we can make toward solving that problem is to first understand the facts. For that important reason, I am very pleased that we've had this opportunity to talk with you and ask for your support and understanding.