

THE ENERGY CRISIS: WHAT CAN WE DO ABOUT IT?

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Remarks by

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&

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Mr. Chairman, ladies and gentlemen--including the many friends I see here:

It's great, just great, to be back in Toronto--even for a day!

Your invitation to speak again to The Canadian Club of Toronto pleased me immensely and I am highly honored by this opportunity to examine with you some aspects of a problem that is critically important to all of North America, and indeed to the entire world.

I am keenly aware that your list of speakers is typically outstanding this year, and I am highly complimented that your Program Committee has seen fit to schedule me between Canada's Minister of Energy, Mines, and Resources and the federal leader of the Progressive Conservative Party. That's quite a spot to be in!

It was particularly gratifying to have been introduced so generously by my friend of long standing, Jack Yocom, who served Gulf Canada with much distinction over many years and who is continuing his exemplary public service as your President.

Some of you may remember that the last time I spoke to the Canadian Club was in November of 1974, when the oil industry in this country found itself frustrated in its efforts to develop Canada's energy resource potential. This stalemate was brought about by the fierce struggle then raging between the Federal and Provincial governments to see who could extract the greatest tribute from the industry's cash flow. In addition, there was general public indifference to the longer-range problems facing the nation in the energy area.

What I should like to do in the next few minutes is, first, to review some of the developments in the energy field that have occurred over the past couple of years, both good and not-so-good. Then I would like to outline briefly one man's suggestions as to what we collectively can and should do to improve the serious energy situation now facing both our countries. When I say "we", I mean in part the petroleum industry, of course, but I also mean our respective governments and each of us as citizens and as individual consumers.

RECENT DEVELOPMENTS

FAVORABLE

First let's talk briefly about some of the good things that have happened in the energy area recently:

* In Canada, I understand that there has been a growing realization by the Federal government and the governments of the producing Provinces that the oil industry

must be allowed to retain reasonable cash flows if we are to do our part of the energy job adequately. As a result, there has been a resurgence of exploration and production, as the industry had predicted. The latest figures I've seen indicate that 1976 will turn out to have been a record year for drilling in Western Canada.

* In both Canada and the U.S. there has been some easing of the rigid price controls that for much too long have hamstrung the industry's efforts to get on with the job.

* In spite of frustrating delays and mounting costs, the Alyeska Pipeline is almost ready to start delivering Alaskan North Slope oil to the West Coast of the U.S. and possibly elsewhere.

* In Canada, the Syncrude project to tap the vast resources of the Athabasca Tar Sands is about 60% completed and is reasonably on target, both time-wise and cost-wise.

* At long last, the Arctic Gas pipeline project to carry Alaskan natural gas to the U.S. and Mackenzie Delta gas to Canadian markets appears to be gaining momentum for approval in the U.S., where the gas is already needed, and in Canada, where it will be needed by the time the line can be completed in 1982. Since it offers both countries access to the biggest known sources of new energy that can be made available over the next five years, it is devoutly to be hoped that our governments will be able to coordinate the timing of their decision-making processes to expedite this

vitaly important project. Another gratifying example of hands-across-the-border cooperation is Canada's assistance in providing additional natural gas to energy-short areas of the United States during the very tough winter. I can assure you that this help is greatly appreciated.

* In spite of environmentally inspired delays and objections, some additional U.S. frontier areas have been opened up for exploration--notably in the Gulf of Alaska, offshore California, and perhaps in the Baltimore Canyon area off the East Coast, although the validity of this last lease sale has recently been disputed by a federal court.

* Some progress has reportedly been made toward resolving the jurisdictional dispute between the Canadian Federal government and certain Provincial governments regarding east-coast offshore frontier areas. Although these areas show much promise, I understand that there are still issues that need to be resolved before exploration can prudently be continued.

* Perhaps the most important development of all is the growing understanding on the part of the general public in both Canada and the U.S. that we do indeed have a critical problem on our doorstep; that it is not a contrivance of the major oil companies or a conspiracy between them and the OPEC nations; that long lead times are inevitably involved in finding and developing new energy sources; and that we must get cracking now if we're going to solve the problem.

UNFAVORABLE

Now let's turn to some developments that are not so encouraging--some that, in fact, are downright distressing:

* Neither Canada nor the U.S. has yet come to grips with the development and implementation of a comprehensive, realistic energy policy. I will have more to say on the need for a rational energy program a little later, because it seems to me that making the decision to do something about our energy problems, hammering out a consensus as to what needs to be done, and then getting on with it--with inspired leadership--are a sine qua non if we are to have any chance of meeting our future energy needs.

* U.S. dependence on imported crude oil has actually increased from 37% at the time of the embargo to 42% at present.

* At a time when we need to marshal all the energy muscle we can muster, some politicians continue to advocate the dismemberment of the major U.S. oil companies into less viable fragments that would be prohibited by law from engaging in more than one phase of the petroleum business or in more than one form of energy resource development. I sincerely believe that either so-called "vertical" or "horizontal" forced divestiture or dismemberment would be a national disaster. These are the companies which for the

most part have the human and financial resources necessary to undertake the massive developments to provide significant new energy resources.

* I am told that regulations that would permit and encourage the exploration and orderly development of Canadian frontier areas are still only in draft form. It is now almost seven years after the withdrawal of the previous Arctic Land regulations under which the initial exploration was undertaken in good faith by the companies involved.

* Although some price controls have been relaxed or temporarily lifted, the petroleum industries in both Canada and the U.S. still operate under price restrictions that inhibit future development, add significantly to administrative complications and costs that must eventually be passed on to the consumer--and undermine the conservation ethic, since artificially low prices encourage energy waste.

* The development of nuclear power--in the U.S. at least--has been slowed to a snail's pace by mounting costs, environmental concerns, and our failure to come to grips with the problems of nuclear waste disposal and the fear of nuclear-weapons proliferation.

* Little or no progress has been made in surmounting the problems that must be resolved in order to tap, on a practical basis, the vast oil shale resources in the western part of the U.S., and Syncrude is still the only new project under way in Canada's tar sands.

* Primarily because of environmental concerns, there has been relatively little expansion of the U.S. effort

to make more extensive use of its greatest energy resource, its coal deposits in both the eastern and western parts of the country.

* Although there is some evidence of better public awareness as noted previously, there is still a great lack of understanding, much misunderstanding, and regrettably, some misrepresentation and distortion of the energy situation in both Canada and the U.S. We will not be out of the woods until the average Canadian and the average American, as well as their respective elected representatives, truly and honestly understand and acknowledge the fact that we have an energy problem that must be solved if we're to survive.

These are some of the things that cause us concern. Now let's turn our attention to what we can do to improve the situation.

WHAT NEEDS TO BE DONE

In developing realistic and effective solutions to the North American energy problem there is a crucially important role to be played by the general public, by the various governments involved, and by the oil and gas industry. In one or more of these capacities, everyone in this room is directly involved; indeed every individual in North America is directly involved in the problem and must also be involved in the solution. The problem is too important to be left to the oil companies, or to the politicians, or to the environmentalists, or to any other single group.

PUBLIC

Whether it's popular or palatable or not, a simple fact of life is that the principal burden in solving the energy problem is necessarily and inescapably going to fall on the broad but overloaded shoulders of John Q. Public. It is he who must pay the higher costs that will be involved; it is he who must readjust his life-style to make conservation realistic and significant; and regrettably it is he who must pay the penalties resulting from the delays in tackling the problem effectively on a more timely basis.

Personally, I am among those who believe that people in general are more ready, willing, and able to accept the sacrifices and inconveniences involved in dealing with our energy problems than many public figures give them credit for. Some politicians, I'm afraid, have been rather too inclined in recent years to sugar-coat the pill, to look for scapegoats, and to point the vindictive finger rather than face up to harsh and presumably unpopular realities. In so doing I think they have tended to sell both Canadians and Americans short!

Very properly, however, the public want to be sure that they're going to get their money's worth--that if they pay the higher prices, if they conserve energy while increasing the efficiency of the energy they use, if they readjust, they can indeed be assured of adequate future supplies at prices appropriately related to costs. They

have every right to expect--indeed, demand--the kind of performance on the part of governments and the energy industry that will realize that objective.

GOVERNMENTS

When we come to consider a problem of the magnitude of the energy crisis, it's easy to shrug our shoulders and say "The government should do this", or "The government should do that", or "'They' should do something else". The sad fact of the matter is that passing laws won't produce petroleum, issuing regulations won't find natural gas, and imposing price controls won't develop a single new energy source.

What governments can and must do, nevertheless, is what they are uniquely positioned to do on behalf of all of us: Namely, create and maintain a climate of economic encouragement and regulatory stability in which industry can plan for the future and invest with reasonable confidence--permitting things to get done by those best able to do them. This important function is a fundamental requirement for developing and implementing a comprehensive, realistic national energy policy. Such a policy is urgently needed both in Canada and in the U.S.--tailored, of course, to each nation's respective needs and aspirations.

While there are many different means of implementation to be considered, it is becoming increasingly clear that any sensible energy policy, whether U.S. or Canadian, must embrace the following five basic elements:

1. Conservation--or more precisely: Increased energy efficiency. By this I don't mean Mickey Mouse half-measures and superficial tokenism. I mean realistic, effective measures by which more efficient use of energy will be encouraged, rewarded, and in some cases compelled. Slower speeds, smaller and lighter cars, lower thermostats in winter and higher in summer, home insulation, and the like are, of course, essential. In addition, we must stop such wasteful practices as burning gas under power plant boilers, and we must provide incentives to install heat exchangers and other energy-saving industrial equipment.

2. Realistic pricing. Either through complete decontrol, perhaps with appropriate "plough-back" provisions, or under some sort of standby, watch-dog price control arrangements, the prices paid for all forms of energy and the revenues retained by the producers and processors must adequately reflect the risks and costs involved, the investment required, and the real value of the product to the consumer. A realistic price structure that reflects premium prices for premium fuels such as natural gas is undoubtedly the most effective possible means of encouraging real conservation in addition to providing the funds for discovering and developing future supplies.

3. Accelerated development of conventional oil and gas resources. There is still a lot of oil and

gas to be found in the so-called "nooks and crannies" of the continental areas of both Canada and the U.S., if the costs can be afforded, by techniques recently developed and still being developed. Furthermore, the potential for additional production from the frontier areas of both countries is still believed by knowledgeable geologists to be very considerable. We need to surmount the environmental and governmental regulation problems involved and make these areas more accessible for exploration under conditions that will permit and encourage their development.

4. Expanded utilization of coal and nuclear energy.

It is now clear that for the "medium term"---after our production of conventional oil and gas has peaked and before other alternate energy sources are available either technically or economically--our reliance on coal and nuclear energy must significantly increase. The technology is available today for the safe generation of nuclear power and for more efficient, environmentally acceptable use of coal as a fuel through such means as desulfurization, gasification, and liquefaction. The political challenge in this area, as I see it, is to cut through the bureaucratic red-tape, sort out the legitimate environmental concerns from those that are unrealistic and simply obstructive, and give industry the chance to get on with the job of building the coal-conversion plants, the coal-fired

power plants, and the nuclear power installations that will most certainly be required in the 80s.

5. Development of the technology to make other alternate energy sources available. A great deal has been written and spoken about the long-term potentials of oil shale, tar sands, geothermal energy, nuclear fusion, tides, winds, and the sun as direct sources of energy in the future. Although these sources have attracted a great deal of interest, the simple fact is that we don't yet know how to harness them efficiently and economically. Our need here, I believe, is to encourage and promote the development of the technology that eventually will make these alternate energy sources available to us on a practical, economically viable basis. The challenges are so immense that this effort will undoubtedly require both private and public funds and facilities. The construction and operation of prototype or demonstration plants and facilities to prove the technology and economics for commercial-scale equipment will probably call for some form of government involvement.

For us to accomplish these five objectives, the principal role of governments, it seems to me, is that of sorting out the myriad meritorious suggestions that are made, putting the necessary implementation programs into position, and then letting those who are best equipped to undertake the various tasks involved get on with the job.

INDUSTRY

This brings us to the industry's responsibility:

As I see it, our job is the "doing" part of finding, producing, processing, and delivering energy resources and related products and services, both now and in the future. Very clearly this responsibility involves not only doing these things and doing them well, but also doing them in such a way as to have minimum adverse effect on the environment and on other aspects of the quality of life and without expecting or realizing excessive profits.

As one member of the industry, our company is prepared to accept our part of this tremendous responsibility, including the caveats. We do insist, however, that before we can prudently invest the large amounts of our shareholders' money in the uncertain and hazardous ventures involved, we will have to be reasonably sure that our possible return on capital employed will be sufficient to justify the risks inherently involved. Under present circumstances, we estimate that the return on capital employed required to meet this criterion is in the range of 14 to 15%, sustained over a significant period of time. Unfortunately--and regrettably--we have been able to achieve this range of return only infrequently in recent years and we have never exceeded it. By way of specific example, Gulf Canada's recently announced financial results for the year 1976 correspond to a rate of return on capital employed of 11.9%, which is somewhat

better than Gulf's worldwide Corporate performance last year of 10.4%. In its peak year, 1974, Gulf Canada's return was 14.7%. The Corporation's peak to date occurred in the same year when its return was 14.6%

My colleagues and I over the years have done our best to keep the Canadian public fully informed of our activities in helping to develop Canada's tremendous potential energy resources. I will not, therefore, take the time today to review in detail Gulf Canada's involvement in the conventional oil and gas areas of Western Canada; in all three Canadian frontier areas, the Mackenzie Delta, the Arctic Islands, and the East Coast offshore; in the Syncrude project; in uranium mining and milling in Saskatchewan; in the Arctic Gas project; in expanding and modernizing refinery and marketing facilities; in the production of chemicals; and in various other related activities. You may already know from public statements by Mr. Shepard and Mr. Stoik and others that Gulf Canada's capital and exploratory expenditures in 1976 amounted to a record \$323.2 million and that another \$491 million are programmed for expenditure this year.

With my Corporate hat on, I can report to you that the strategy of Gulf Oil Corporation is similar to that of Gulf Canada. Of the \$1.7 billion in Corporate funds spent on capital and exploratory projects last year and the \$2 billion or so scheduled to be spent this year, two-thirds were and are earmarked for the discovery and development

of new energy resources. Of this two-thirds, more than three-fourths are destined to be spent in North America.

I submit that by our actions we have demonstrated and are demonstrating our readiness, our willingness, and our ability to do our part in meeting the North American energy challenge. Although I can speak with authority only for Gulf, I am confident that these sentiments are shared by other responsible members of the petroleum industry. It is our hope and prayer that the people of Canada and the people of the United States, through their respective governments, will not only permit us to continue our efforts but will encourage us to do so.

In summary, there are crucial and unique roles to be played by the general public, by government, and by industry in solving the energy problems confronting North America. If--but only if--each of these groups of citizens does its respective part of the job honestly and well, we can achieve a satisfactory solution. I believe most sincerely that we will all do so. It is not an overstatement, I believe, to conclude by saying that what we have been talking about here today is in a very real sense the survival of North American society as we know it.

Thank you!

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