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by Nick Poulos / Financial Editor

Energy Crisis: It'll Get Worse

Primarily because "it doesn't hurt enough yet," the energy crisis will get worse before any measures are taken to alleviate the situation, according to John E. Swearingen, chairman and chief executive officer of Standard Oil Co. [Indiana].

He also asserted in an interview that:

- The government must formulate a national energy policy which recognizes the importance of a secure domestic energy base and which encourages discovery and development of new domestic oil and gas reserves to be complemented by other politically secure sources in the northern hemisphere.
- Many of the complaints and actions of the environmentalists blocking oil and gas production on Alaska's North Slope and offshore areas of the United States are "capricious."
- The cost of energy will increase substantially, with gasoline, for example, doubling in price in the next 15 to 20 years.

Swearingen noted the 1969 Tax Act imposed additional taxes on the petroleum industry and slashed the oil depletion allowance to an effective average rate of approximately 17½ per cent.

"Congress would make a serious mistake if it revised the tax laws again to reduce industry incentives as part of any 'reform' effort," the Indiana Standard chief said.

"I'd like to see Congress increase the incentives for domestic oil and gas production, but I think the practical realities are such that this won't happen in 1973.

[Last week, Commerce Secretary Peter G. Peterson said President Nixon will take some bold "initiatives" during 1973 to ease the energy crisis.]

"One reason is we're not hurting enough yet in terms of a shortage of energy supplies. In effect, we're playing fast and loose with our long-term supplies of oil and gas. We seem to have difficulty in this country formulating long-range policies. We should be producing as much oil and gas as possible in the United States."

Swearingen cited as an example of government short-sightedness its area rate ceiling on the price of domestic gas at well-head.

"We petroleum companies get only 25 cents per thousand cubic feet of gas while imported liquified natural gas will sell for between $1 and $1.50 per thousand cubic feet," he said.

John E. Swearingen

"What kind of incentive is there for us to explore for more natural gas with that kind of a price? That's a disincentive."

Swearingen said the country will have to continue to rely on oil and gas as the principal energy sources for many years to come because other feasible sources have not yet been developed. Adding pressure to the problem is that United States energy demand is expected to double by the mid-1980s, he said.

The activities of the environmentalists have proved costly to the petroleum companies in terms of both money and lost production, the Indiana Standard executive said.

"Take the Alaska North Slope as a classic example," he said. "The petroleum companies have invested so far about $2 billion there in oil leases, drilling, pipe, and other things.

"And we're not producing any oil on the North Slope. So we're paying a higher price for the equivalent amount of oil from the Middle East. It's just silly."

Once strictly a domestic producer, Indiana Standard in the last 15 years has spent about $1 billion to produce oil and gas outside the United States, Swearingen noted.

"One-fourth of our total assets are now outside the United States and one-third of our capital expenditures are for outside the country," he added. "Over the next 10 years, we expect to increase the proportion of our exploration efforts overseas

"How long will it take before our overseas production matches our domestic production?

"More than 10 years. However, if we should make some more big discoveries in the North Sea or elsewhere, it could happen sooner. And, of course, we can't overlook the possibility we might make some big oil and gas finds in United States offshore areas or Alaska."

Swearingen explained that Indiana Standard decided to go overseas because it thought it could engage in oil and gas production as a business opportunity in competition with other major petroleum firms, and that it wanted to develop sources of production under its own control to supply its refineries.

"The last thing we wanted was to be forced to buy crude from our competitors," he said.

"We've been successful so far principally in Iran, Egypt, the North Sea, Trinidad, Venezuela, and Argentina."

Frank C. Osment, president of Amoco International Oil Co., a subsidiary, emphasized that Indiana Standard's exploration and production activities are scattered thruout the world.

"We have two oil plays in the Mediterranean, for example, offshore Tunisia and offshore Sicily," he said.

"We'll start drilling for oil in Pakistan in 1973; we have very sizable acreage there, about 11 million acres.

"Also next year, we'll start drilling offshore Thailand, in the Gulf of Siam. We're active in Indonesia, and offshore Australia near Papua, and offshore Taiwan. We've found oil and gas offshore Japan.

"In South America, we're active in Peru, east of the Andes. In Argentina, we'll start drilling by the end of the year.

"And in Africa, we've started drilling offshore Mauritania."

Swearingen added that Indiana Standard's overseas operations are now returning substantial profits to the parent company.

"We hope to be able to continue to show an 8 to 10 per cent annual earnings increase, as we have had in the last 10 years," Swearingen concluded.