

MIDCONTINENT PERSPECTIVES

[Midwest Research Institute](#)

Kansas City, Missouri

January 23, 1976

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Dropping The “In” From Project Independence

I thought a great deal about the formal topic of my talk today. It could well have been “Energy,” “The Energy Mess,” or something similar, but topics such as that have become commonplace in the past 3 years that I have been active on the speaking circuit. I really wanted a new, fresh, and at the same time, descriptive topic.

My topic – Dropping the “In” from Project Independence – is indeed a vivid description of the compounded confusion and contradictions being forcefully inflicted upon our country by Johnny-come-lately, instant energy experts sitting in our Congress as representatives of oil consuming states who appear to believe that cheap energy is a God-given right that oil producing states should be happy to provide forever and ever.

It is the height of irony that dropping the “In” from Project Independence is occurring as we begin the celebration of our 200th birthday as a great and independent nation.

As we stand on the threshold of our third 100 years as a great, powerful and independent nation, I know this event, the celebration of our Bicentennial during 1976, will be a year of many speeches – speeches which will in the main be of the self-serving type bragging about our progress and achievements of the first 200 years. Frankly, the past 200 years is history. As businessmen and concerned citizens, there is nothing we can do to change what has happened.

Now the future is another story. We do have control over future acts of our government. We do have control over our destiny 100 years hence. As we stand here today, my concern is not the past or past accomplishments of our great nation. Gentlemen, my concern is – will we still be independent and will we still be a great nation 100 years hence?

Of course, much as we might like to know the answer to that question, none of us here today will be around a hundred years from now. Perhaps that is fortunate because if we knew the answer, we might not sleep as soundly.

Certainly many businessmen are concerned about the future. Look at government spending! Look at the government debt! Look at our irresponsible Congress! Look at our declining military power vis-a-vis Russia! Look at the Western World’s dependency on the Middle East! Look at our declining oil and gas production! Look at our complacency at home! Look at our growing dependence on imported energy!

It sounds almost like a premature wake, but that is not my intention. Rather I hope to arouse you from your lethargy, to wake you up, and most importantly, I hope to stimulate you to

do something about it in the days, in the months and in the years ahead. An aroused citizenry can truly accomplish wonders in Washington; but to accomplish those wonders, you must be aroused, you must become demanding, and above all, you must communicate – loudly, clearly, and often.

Communicating loudly, clearly and often is easy these days because really there is so much to communicate. If you are against the mounting government spending and debt, say so – but for God’s sake, say it often. If you are against our growing dependence on imported energy, say so -but again for God’s sake, do it often. Whatever you are against or in favor of, speak up – loud, clear and often. Your Congressmen, Senators and our President will and do listen. Your messages will be read, your messages will be counted, and your messages will influence their thinking.

Our U.S. economy is heavily dependent on energy. Our high standard of living is heavily dependent on energy. Our continued independence as a nation is heavily dependent on the ultimate success of Project Independence.

The companies that supply our energy have done a fabulous job over the years in providing us with the cheapest energy available anywhere in the world, but those days are gone forever. It is appalling to watch the compounding of confusion, contradictions and government red tape as our Congress attempts to legislate away this factual situation as though it were nothing more than a bad dream or nightmare.

We have had much political hot air and rhetoric on the subject of conservation. Like motherhood and the flag, this is a tremendously safe political topic, as long as you don’t legislate any down-to-earth conservation measures – and there haven’t been any, except for the rather widely ignored 55-mile-an-hour speed limit. Americans are regarded as not ready to give up any aspect of their hard-won standard of living, and our politicians, who should know better, are not going to risk endangering their standing with constituents – all because they lack the guts to lay it on the line.

Nor are many Congressmen ready to decontrol prices to let the efficient marketplace achieve conservation of energy. Congressmen opposing decontrol, mainly those from heavy oil consuming states, seem blind to the fact that price controls, per se, are a form of government subsidy to encourage energy consumption. *Fortune* magazine said editorially in July, “It’s plainly irrational to encourage the consumption – and discourage the production – of oil and gas by artificially low prices.

The irrationality of price controls for natural gas is conceded today by practically all the experts, including experts not noted for their friendliness towards private enterprise oil and gas companies, but it has taken only 21 years for them to arrive at that profound conclusion.

And yet, after 21 years of disastrous controls over interstate natural gas prices, we still have price controls because many of the Johnny-come-lately, instant energy experts in the Congress cannot bring themselves to vote for decontrol.

Of more recent vintage, we have been irrationally compounding the 21 year natural gas disaster with price controls on so-called “old” oil at \$5.25 a barrel, less than half the market price for new oil. New oil has been exempt from controls since Cost of Living Council days when the two-tier pricing system was first brought into existence. The theory was no control on new oil in

the hope of encouraging drilling activity. With prices for new oil roughly equivalent to the laid-in cost of foreign oil, drilling activity has expanded sharply.

Much new oil has been found and is slowly coming into the marketplace. While the price incentive to look for oil has been highly successful, the Congress has just passed a bill to achieve a rollback in the average price of old and new oil, which in turn will place price controls on new oil for the first time.

So despite the success of an incentive price for new oil, this bill will roll back new oil prices and keep the heavy hand of Congress on all oil prices for 40 more months. After 2 years of struggle – after 2 years of hot air and rhetoric – the best our Congress can come up with, to paraphrase *Fortune* magazine, is an irrational approach to oil price controls.

Professor William Johnson, an economics professor at George Washington University and former Assistant Administrator of the Federal Energy Office, in a recent book, stated that price controls in the oil industry “serve little useful purpose other than to politicians who would like to create the illusion that the government is doing something to protect consumers from inflation” and further comments wryly, “The public would be better off without that kind of help.”

In other words, when consumers have friends like Congressmen, Senators, and Presidential hopefuls from the heavy oil consuming states, they don't need enemies.

Will those supporters of price controls either in our Congress or running for President or both ever learn the folly of prices controlled by a government edict? Certainly those oil men caught with new oil under proposed price controls will learn to their sorrow that the word of the U.S. Government is worthless – that like a treaty with Russia, it isn't worth the paper it's written on!

Whether controls on new oil found under the clearly stated government policy of “no price controls” can legally be brought under control is a question which is now being litigated by MAPCO. Whatever the legalities, the moral issue is crystal clear.

But then Congress is expert at applying dual standards of morality to itself in carrying on its work, and to American businessmen in carrying on of their daily work. I believe there is federal legislation on the books requiring manufacturers to truthfully label their products and there are serious penalties for not so doing. “Truth in labeling,” of course, is not required of the Congress. It can pass a “Tax Reduction Act of 1975” and bury in the middle of that so-called “Tax Reduction Act” a \$2 billion increase directed solely at one industry – the petroleum industry. What do you suppose Government would say about us businessmen if we participated in a scheme such as that?

And while we are on the subject of that Tax Reduction Act of 1975, this Act with its wide-ranging impact on government finances, government revenues, the government debt and our entire economic system, this Act was not even available in printed form to the members of Congress when it was passed. One Congressman upset about the lack of a copy of the bill voted with two fingers holding his nose tightly closed. Again, what would Congressmen investigating a businessman say from the sanctity of a Congressional investigating committee room to a businessman participating in such an irresponsible proceeding? It is undeniable that dual standards of government and politicians vis-a-vis American business are everywhere.

Many businessmen are guilty of giving their tacit support to this alarming situation. Before its elimination, oil depletion had been under attack for well over a year, and during this period it was literally impossible to stir up concern by trade associations and other businesses enjoying the benefits of statutory depletion for other minerals. They seemed to wear blinders, they seemed to feel it couldn't happen to them, they don't seem to realize that today it is oil depletion and tomorrow it will be copper depletion, iron-ore depletion or something else.

On two occasions over the 2 years I have been to Massachusetts where I have frankly discussed the contradictory and illogical attitude of Massachusetts citizens with respect to drilling off their beaches. They feel the beaches of Massachusetts and Cape Cod are sacred and could care less about the beaches of Texas and Louisiana. I told them if they truthfully feel this way about beaches they ought to arrive at a decision to live in splendid isolated purity, give up modern energy, don't use it, and simply return to the candlelit houses and the polluted streets of the horse and buggy age.

I have also been to Delaware and talked frankly about the foolishness of the Delaware citizens who, while they happen to have facilities suitable for super ports for the receipt of foreign oil, don't want any super ports in Delaware nor do they want any refineries on Delaware Bay. The little state of Delaware – the tail wagging the dog – doesn't want anything to do with supplying energy to the United States of America. Again the good people in Delaware have a contradictory and dual standard. They live in Delaware, they drive their cars, they keep their houses warm, but they believe the miracle of modern energy should be provided from somewhere else.

Whether it be in Massachusetts, Delaware or wherever, we have a lot of environmentalists with idealistic dreams. Basically, the dyed-in-the-wool environmentalists plus many ordinary citizens believe that the miracle of modern energy is a basic right, a right which oil and gas producing states should be happy to supply. Our environment, our beaches, our cities and towns don't matter – nor does it matter that we supply them with gas and old oil at prices far below intrastate and world markets. I wonder if they will be so generous with us when the day arrives that the oil and gas in Texas, Louisiana and Oklahoma is gone. And I might add, I am afraid I know the answer.

For almost 2 years now, we have had before the public eye "Project Independence" the major thrust of which is to reduce our dependence on OPEC. Progress on "Project Independence" has been painfully slow – almost nil. Oversold to the public in the beginning, Project Independence is now being seen for what it really is – a program to possibly reduce our dependence on foreign energy by developing to the fullest our oil and gas reserves, our nuclear power capabilities, our abundant coal reserves, our shale oil reserves and possibly in time, other more exotic forms of energy such as geothermal, solar, hydrogen and so on.

The master plan unveiled about 9 months ago by ERDA, the new Energy Research and Development Administration, made clear that there is no quick solution to our energy dilemma. The plan is broad in scope, emphasizing that the nation has no single known solution but that research and development must proceed down all possible avenues at once. The cost will be in the hundreds of billions of dollars with private enterprise hopefully cooperating in joint projects on a scale comparable to the Apollo project to put man on the moon.

I say "private enterprise hopefully cooperating" because to cooperate in multi-billion dollar programs takes money and that money has to come from profits. In 1974 oil company

profits were making the front pages, but a year later, oil company profits were sharply lower. You guessed it, those reports were buried in the back pages where only the poor stockholders read them.

Despite solid evidence to the contrary, our Congress considered 1974 oil earnings to be “obscene” and promptly saddled the industry with an additional tax lug of \$2 billion. And now, new oil prices are about to be rolled back to the tune of another \$3 billion annually after solemn government assurances of no price controls on new oil. Inevitably, this \$5 billion burden is going to reduce by \$5 billion annually the ability of the petroleum industry to look for and provide new sources of energy.

Energy companies are not philanthropic entities. We operate on a profit basis or we don't operate at all. Our basic products, services and expertise directly provide the fuels that are essential to industrial and agricultural production, which means employment, food, and ultimately international independence, strength and leadership.

Seriously, I fear a dangerous kind of isolationism in the confusing and contradictory psychology of Americans and their elected representatives. There is, and there has been for some time, a formidable threat to the energy-dependent economies of the Western World. Our response as a nation has been completely inadequate. Since the oil embargo of 1973 we have not made any progress toward energy self-sufficiency. We are too busily engaged in short-range appeasement politics, for one thing. And, in fact, it's just too inconvenient to even acknowledge that a real threat to our continued independence exists in the world out there.

This attitude is responsible in large part for our floundering approach to energy problems. Congress insists on focusing attention on the economic costs of a program, on the burdens a program places on this or that part of the country, or on this or that sector of the population. What the Congress resolutely overlooks is that energy is a foreign policy problem as well as a domestic economic problem.

Whatever energy programs are chosen will be costly and must of necessity represent a voluntary act of economic self-denial on the part of the American people in order to gain political freedom of action in international affairs. The Congress gives every indication of concluding that economic self-denial is unthinkable. The Congress will not impose any harsh or down-to-earth controls on individual consumers, but the Congress gleefully – it seems – has adopted dictatorial types of controls on all major energy users, and again – licking its chops – has adopted new and continued irrational and illusionary price controls on new and old oil, respectively.

The new pricing formula for crude is almost diabolical in its ultimate impact on new crude oil prices. Congress has mandated an average price per barrel with a continuance of a new oil and an old oil price. With old oil frozen at \$5.25 a barrel and old oil production declining week by week and month by month, the new oil price is probably also going to have to come down in order to achieve the mandated average price per barrel. When you realize that drilling and completion costs have escalated dramatically over the past few years, with many items having nearly doubled in price, you can see that any formula leading to a possible declining price for new crude oil flies directly in the face of economic realities. Who other than our Congress knows how to fly in the face of economic reality? Of course 1976 is an election year, so a slightly lower price for gasoline at the expense of the petroleum industry is a great thing for the voters.

But by dealing with the energy issue in terms of local appeasement politics, the old make-the-voter-happy-above-all routine, the Congress is playing a very casual short-sighted game that endangers all of us. By minimizing their grave responsibilities in this area, so as to reflect the dreamlike views of their constituencies, Congressmen are in the long run letting their constituencies down, too – and that includes all of us.

The real problem is that Congress has got to blame somebody. The OPEC nations? No, it's futile to blame the OPEC countries. They have the oil, and we've actually strengthened their hands by actions demonstrating to the world that the "In" may be dropped from Project Independence.

Politically, nothing is better than finding a big, fat, juicy, more or less, defenseless target to punish. And it is this more than anything else – certainly not rational judgment – that explains the recriminating, contradictory and punitive attitude toward energy companies among many members of Congress – with the cheers of their constituencies behind them.

The latest monstrosity, known as the so-called Conference Energy Bill contains an infringement of basic property rights in nearly every section. It will certainly punish energy companies. It will also subject large energy consuming industries and companies to close government control and supervision of their energy consumption and conservation efforts. It will make exceedingly difficult the job the petroleum industry is faced with in attempting to bring about some degree of energy independence over the next 10 to 15 years. With new oil price controls, it is apt to nip in the bud the greatest drilling boom this country has seen in decades. It also subjects the country to serious and very real danger of greatly increased imports of energy from abroad. Knowledgeable Arabs, many of whom were educated in our best colleges, must be laughing uproariously, as we by our actions demonstrate that we are trying hard to drop the "In" from Project Independence.

We have had a lot of talk in the last Congress, and in the present one too, directed at so-called fat-cat energy companies. Bottled, the hot air and political rhetoric might have solved our energy problem, but the fact of the matter is that all the words and acts of Congress last year and this year have not produced a single added barrel of crude oil, a single added Mcf of gas, or a single added ton of coal.

Collectively, we are on a collision course with economic disaster. Unless some drastic changes occur, unless Congressmen from the heavy oil consuming states in particular stop playing irrational games, our country is headed for lower business activity, lower standards of living, lower employment and other unpleasant consequences.

It is so sad and so completely unnecessary. We do have vast quantities of energy; we have the manpower, talent, expertise and money; in short, we have the foundation for energy independence in our time, provided – and this proviso is a must – the Congress ceases its political vendetta directed at destroying our energy companies and thus setting the stage for ultimate government takeover. If the Government can't run a simple business such as the Post Office well, how do you suppose they would do with a complex business such as producing and distributing energy? And don't forget, energy companies only happen to be first on the list of those in Washington who seek fundamental changes in our system of business and government.

You and other concerned citizens must become aroused, you and other concerned citizens across this great land of ours must maintain steady pressure on our Congressmen and Senators if we hope to alter our collision course with economic disaster.

Many connected with energy and knowledgeable about energy, including many capable Congressmen and Senators from the oil producing states, are doing their best, but we badly need the help of every concerned American, so if you are concerned, talk with your friends – write your Congressmen and Senators – urge your friends to do likewise – tell them that you are fed up with giving lip service to Project Independence while all the while, Congress by its actions is dropping the “In” from Project Independence. Demand an end to the short-range politics of convenience; in short, say loud and clear that you expect a down-to-earth, realistic, fair-handed private enterprise approach to solving our energy problems – not next year, nor next month, but now – today.

And as I said earlier, do it often. Your messages will be read and your messages will count. If concerned citizens will act, the tide can be turned. Indeed, the hour is late – but not yet too late – if you will do your part beginning tomorrow.

QUESTIONS AND ANSWERS

QUESTION: Mr. Thomas, recently I was talking to a man in a business related to yours, a large company that had sold its overseas business to employees. We discussed his reasons for doing that. Evidently the prime reason was that in order to do business abroad, for years it has more or less been understood in many countries that there is a kind of standard price for doing business with the government, which is about 5 percent on whatever you do with them. Therefore, for publicly owned companies it is very difficult now to be in business on that basis. We both agreed that it was going to be very hard for American people in the energy business to compete abroad because by and large we were not going to have the brains and talent we’ve had before to be able to go into these countries and deal on that basis, except on a non-publicly owned company basis. Is that true?

THOMAS: I do not believe so. Of course, we’ve been reading a great deal in the press about companies that were making various kinds of payments, legal, illegal and otherwise, to foreign governments and to foreign government officials, which they put in their personal bank accounts. It’s true that when you do business in a foreign country, payments are a way of life in many places. It is difficult for a publicly owned company because stockholders do not understand and SEC gets upset, although there has been some degree of understanding at the SEC. Of course, the real problem is that our system of government is trying to hold American companies up to very high standards in this country, with which I certainly don’t disagree, but I think we’re living in a sort of dreamworld if we think that we can operate the same way in countries where people live in a different way; their practices are different. To a certain extent, when you live in Rome, you do as the Romans do; so there are great problems in that regard. We operate a little bit abroad, not a great deal. We produce oil in Indonesia, and we’re in Canada, and we have been active in seeking deals in some other countries, including the Middle East, and we’ve never yet run into a situation where we had to make a payment. The worst that we’ve had to do is make a gift of an expensive rifle to a sheik.

QUESTION: What I don’t understand is, if you’re doing business with a totalitarian government or monarchy, or something like that, and you’re paying somebody 5 percent on the

price, now what's the difference between that and giving some free enterprise system, some corporation, a profit for representing them? It gets to be a rather fuzzy line.

THOMAS: I think in many cases it's been magnified all out of proportion – I guess there is a post-Watergate mentality in this country – and everything has to be put under a microscope and examined in minute detail to see if it possibly should be changed. I don't go along with a lot of these payments that have been disclosed. We don't happen to be in Mexico, but I am a director of a company that does business in Mexico, and I know that there are times if you want to get some equipment into Mexico through customs, either you pay the customs man or that equipment will sit on the dock wherever it is for a year, two years. You know, "manna" can be any time in Mexico, so what do you do? All it takes is maybe \$25 and here you've got a \$10,000 machine sitting somewhere that you need, what do you do? That's the problem we face.

COMMENT: It seems to me in some cases the large corporations are holier than thou about their approach. Perhaps the public would better understand if these things were laid on the line.

THOMAS: I think you're right about that. It's a very sensitive area. No one has laid it on the line that way yet.

QUESTION: Is your company the only one that is filing this suit against the government on that topic?

THOMAS: We've had many people who have gotten in touch with us and have offered to contribute to the legal expense. We have also had people who have offered to join in as plaintiffs, and we're probably going to invite about a half dozen in. But we don't want to lose control of it, as far as our lawyers are concerned, by having a lot of other parties. I think we are also going to have one of the oil producing states becoming a party in the suit on their own. There is a great deal of interest in it, and I've had many letters from all over the country. I've had letters from stockholders complimenting us on doing it, and we have yet to hear from anybody criticizing us on it, thank goodness, except maybe President Ford, and we haven't heard from him on the subject.

QUESTION: What is your prediction on natural gas deregulation?

THOMAS: I think that there's a fairly good chance that we may have deregulation at least of new gas.

QUESTION: Mr. Thomas, let's suppose then that we do have deregulation of new gas. About how much do you think the drilling for gas will escalate? We've had a tremendous increase in drilling, but it's all been for crude oil, and there's been no interest in finding gas. How much do you think this would benefit the lot of the interstate pipeline company?

THOMAS: It couldn't help but have a favorable impact. You know that's one of the problems of the Congress. When you talk to them about deregulation they say, "Well, what guarantees are there that you will find oil or that you'll find gas?" There is no such thing as a guarantee in the oil business or in the gas business. But it is certainly true that if the controls were off, we would see a lot more drilling, and we would see, I think, the discovery of a great deal of additional gas and oil. With the controls off, there'd no longer be the incentive to sell only in the intrastate market. For example, today we won't take a gas deal if it involves the prospect of selling it interstate. I'm not interested because we can get \$2.00 intrastate, and if we have interstate gas we get maybe 50¢. It doesn't make any economic sense.

The other problem with Congress is many of these fellows seem to think that all the industry has to do is turn a valve somewhere. Even if we had decontrol tomorrow and we, therefore, had a real expansion of drilling activity all over the country, offshore and everywhere else, and assuming a satisfactory success ratio, it would be 5 years before you would see much in the way of production because that is the time lag between starting exploration and bringing production on stream.

QUESTION: Mr. Thomas, what are the prospects for energy production out of oil shale?

THOMAS: Well, they're fairly good, but the problem with oil shale is that it's very expensive. You have to think, I believe, in terms of something on the order of \$15 to \$16 a barrel for crude oil equivalent under present-day costs. If you start building the shale oil plant today you might have to think in terms of \$18 to \$20 a barrel for the crude oil price equivalent to justify the shale oil investment. That, of course, is one of the problems that we have – how do we bring into play some of these new forms of energy, all of which are very expensive. Really, anything you look at, you must think of in terms of \$15 to \$16 a barrel or more of crude oil equivalent, or if you're looking at gas you must think in terms of \$3.00 or \$3.50 Mcf gas. All these energy forms are very expensive. How do you phase in the very expensive ones while we have these others so cheaply priced?

QUESTION: Mr. Thomas, if deregulation would occur tomorrow, what expectations do you have that domestic companies would do their drilling domestically?

THOMAS: I think there would be a tremendous surge of domestic drilling; there already has been. In fact, drilling activity last year reached the highest level in years, in 20 to 25 years, because oil men are perpetual optimists. We thought we were going to have deregulation last year, and we were trying to beat the gun. As I say, we're perpetual optimists; otherwise, we wouldn't even be in this business.

QUESTION: Bob, do you want to comment on the coal situation vis-a-vis sulfur content, EPA regulations, and how that equation might get unhooked?

THOMAS: Yes, we are in the coal business, as you know, and we happen to have both low and high sulfur coal. We never were concerned about our ability to sell the high sulfur coal following last July 1 when the Clean Air Act supposedly made it all illegal, which it did. The reason we weren't concerned was that had the government enforced the Clean Air Act last July 1 literally half the lights in America would have gone out on that date. That is sort of a broad generalization because if this had happened, 100 percent of the lights would have gone out in certain areas that are dependent upon high sulfur coal. I told many congressmen and senators at various times in talking about high sulfur coal and how essential it was, that if they thought high sulfur coal would be shut off on July 1, 1975, they just hadn't discussed the matter with their wives lately. We do have tremendous quantities of high sulfur coal. It's got to be used because unfortunately that's what we have the most of.

The low sulfur coal is very expensive. There's not so much of it, and a great deal of it is in the West where its low Btu's and the very high transportation costs per ton to get it to population centers make it very expensive. Of course, we have stack scrubbers which most people are disenchanted with. Some utilities are quite vocal about the stack scrubbers. They say they just don't work, and I guess that is really the truth.

Then there are other people who are working on the processes to desulfurize coal. We're participating with Battelle Research on a project to prove a desulfurization project for high sulfur coal. I think in time we will unlock the secret of getting the sulfur out of the coal and make these tremendous high sulfur reserves available for use as energy. Personally I am very excited about the future of the coal business over the next 25 years. I think that we're going to see not only more coal used to generate power, because we're going to have to if we don't have the gas and the oil, but we're also going to see coal being gasified and see it being liquefied. We talk about energy reserves and that the Middle East has most of the oil in the world – well, the United States is fortunate to have most of the coal in the world. We could go on for centuries if we can go about our business of letting the energy companies in this country do the job of producing energy and if the Government will keep their cotton pickin' fingers out of our business.

QUESTION: On this coal situation, the gasification of coal is a tremendously expensive and risky business; it requires billions of dollars and the results are not known. As I understand it, the import/export bank abroad stands willing and has guaranteed liquid natural gas plants for places like Algeria. Why would it not make sense for the Government to offer such loans to someone in this country with some kind of guarantee on the price of the gas so that we could really get the gas thing going? It seems to me that none of the private companies is really willing to meet that thing head on, and unless they do, we're 25 years away from anything meaningful.

THOMAS: Well, you've put your finger on the problem; a private company that embarks on one of these projects knows that when the project is completed and in operation that it's going to have to be able to charge maybe \$3.00 or \$3.50 an Mcf for that gas, and you can't sell it under present pricing policies. I think that this problem may be ironed out in time; certainly it ought to be.

There is another interesting facet to this Battelle process which I mentioned a few minutes ago, in that one of the probable side benefits from this – and it isn't certain but is thought to be true – is that once the coal is put through the leaching process to remove the sulfur, when that coal is then used in a gasification plant, it will speed up the reaction time and gasification or liquefaction by a factor of as much as 50. This would reduce very substantially the capital investment necessary to gasify or liquefy coal. It could be a very important part of the Battelle process.

COMMENT: Nobody can really afford to take that risk any more than anybody could afford to take the risk of the moon shot. It seems to me that the private companies ought to lay it on the line. They talk about Congress not dealing in good faith, but really when they talk about coal gasification, they're not talking about anything that is very meaningful the way things are right now.

THOMAS: I think some of the congressmen and senators are thinking about this. Our own Henry Bellman from Oklahoma asked me over a year ago for suggestions on that score. He and I had a long session about it, and I gave him a number of ideas. Certainly the fellows down there are thinking about these problems. We just have this situation that the representatives of the oil consuming states outnumber us, and the people from the oil producing states are thought to be suspect from the word go. Nobody believes us, and certainly those of us from the industry are suspected right from the start of having some sort of ulterior motive, and I don't think that is true at all. Until more of these people come around, we have a very difficult battle ahead of us in the Congress. You take this fellow Dingell from Michigan. Apparently he still believes people are

holding back gas, keeping it off the market to create a shortage so that the Congress will finally decontrol it. And there are other congressmen down there who have ideas of that sort.

One of the features of this new congressional energy bill is that the General Accounting Office now can come into an oil company and audit all of the records in an attempt to find out if you are holding back any oil or gas. It'll be a great big snooping party, but we have that basic suspicion in Washington; and until we overcome that, I don't think we're going to make much progress toward solving our problem.

QUESTION: How do the agency people feel about this, the so-called bureaucrats, the ones that run ERDA, EPA, and others?

THOMAS: I don't know too much about ERDA yet, but as far as I'm concerned, FEA could be done away with tomorrow, and all of us in the business would be saving a lot of money starting tomorrow because we're all doing tremendous amounts of paperwork and we're spending a lot of money complying with their silly rules, etc. I think most of those fellows in FEA today have a vested interest in their jobs. Now, you get over into places like the Department of the Interior and their Oil and Gas Department where there are some old pros, and you begin to get some sympathy for some of these things. It's a very, very difficult matter.

QUESTION: You quoted Bill Johnson several times. He and I co-chaired one of the committees on the National Gas Survey. In our studies to analyze what the investment risks are in the gas industry, one of the very early conclusions that we could come to easily was that the major investment risk is the federal government. He recently asked an official of one of the major oil companies what they would divest themselves of if they were instructed to undergo divestiture, and he said, "the domestic operations." Would you comment on what the status of the divestiture incentives are in the Congress today and what impact that would have on taking the "In" out of Project Independence?

THOMAS: Well that would be the coup de gras. Divestiture, as you know, is an issue that is very emotional. I guess the industry was shocked when there were 45 votes in the Senate in favor of it, and there is a special task force of the API board of directors at work on the problem now. Divestiture would surely break up the big oil companies, but I can't imagine that it would achieve any benefits for the American public.

You break up an Exxon, or you break up a Mobil, or what have you, and you break it up into what is pipeline, what is production, market, refining. Each one of those setups is going to end up with a president or bunch of vice presidents, all with high salaries. Each one of them is going to have to make a profit or they couldn't exist in the marketplace. Some of those portions of companies don't make money today. I think in the long run that if we have divestiture, it will take all the attention of top management of American oil companies a period of several years to figure out how to do it. Who is going to buy some of the operations? It would take hundreds of millions of dollars or billions of dollars.

Take their pipeline system. Suppose we were asked to buy one of the large major oil company's pipeline systems. We'd say, "This is going to cost us a billion dollars; now fellows what are you going to give us in a way of a guarantee so that we know you'll ship your oil this way?" They would say, "We aren't going to give you anything. Why should we?" Then you'd begin to scratch your head; and you'd say, "Where in the world am I going to get this money ... because nobody's going to lend it unless you have some guarantees."

So what do you do? The major oil company is supposed to get rid of it. I think we have the real prospect of actions such as Raleigh Warner, chairman of Mobil, indicated they might do. He said they might convert Mobil from an American company to a company incorporated in some other country. I don't know whether it would be England, or some other country, but some place other than America. I think he's raised an interesting question: What will Congress try to do with Shell, because they're already a foreign company, or with British petroleum? We've got this issue with the Concord. The British and the French are threatening to retaliate if we don't let the Concord fly to the U.S. Suppose we start to break up their oil companies. British petroleum is owned by the British government in large part, and what are they going to say about that? Really what this all boils down to is divestiture of these major oil companies would create a period of confusion, compounded confusion the likes of which we haven't seen in this country for years. If we have a problem in energy today, it'll be a lot worse 5 or 6 years from now than it is today because of that, in my opinion.

QUESTION: Bob, what is the so-called public motive behind divestiture?

THOMAS: It's rather hard to figure. About all you hear some of these fellows say – they come to these hearings with their minds made up – is that it didn't hurt the oil business when they broke up the Standard Oil trust. That's true, but when they broke up the Standard Oil trust, they didn't divest their various segments.

Again, in my opinion, it is just a continuance of the political vendetta. I hate to keep repeating and repeating the same charges against our Congress, but they're true. We have a first class public relations job in changing our image in Washington. It's being worked on, and we've made some progress. People like Senator Weicker from Connecticut switched over last fall on many energy questions. Senator Roth from Delaware has switched over. One by one we're picking off some of these diehards who have been on the wrong side of these questions. Maybe one of these days, we will begin to get a majority for a sound point of view. That's what we have to work for.

QUESTION: Would you comment on the impact of the Alaskan pipeline in relation to the energy situation in this country?

THOMAS: Well, it's going to be very helpful when it comes on stream because, of course, it's going to add about 2 million barrels a day to our domestic production. Our domestic production has declined steadily year by year over the last 4 years. It's down from roughly 9-1/2 million barrels a day to 8-1/4 million barrels a day. By the time the pipeline starts up, it will probably be down to 7-1/2 to 7-3/4 million barrels a day, so that the 2 million is going to take us back up to around 9-1/2 million barrels a day of domestic production. And that will be very helpful.

At the same time, we've had a decline in the demand for oil in the last couple of years partly because of higher prices, partly because of the business recession, and partly because people are being a little more careful with energy. Our demand is now starting to grow again. The gasoline demand is now inching up. It's a little higher than it was a year ago, and most people feel that next year it will grow by 2 to 2-1/2 percent. Two to 2-1/2 percent of 16-odd million barrels a day is 400,000 barrels, 2 million barrels in 5 years. It really will not solve our problems. Also, that oil is not going to be cheap. The environmentalists have succeeded in boosting the price very substantially on transportation alone. The last I read, the cost of the pipeline is up from a billion dollars to \$6 billion, and I don't think the owners are convinced that

that will be the final bill. You know there is only one person who is going to pay for that \$6 billion investment and that is John Q. Public.

The environmentalists caused that with all their concern about the wildlife in Alaska, etc. Someone said that the laying of the pipeline across Alaska damages the environment just as much as if you took your favorite golf hole, wherever it may be, and took a ball of twine and walked the length of that hole 500 yards and strung out that twine. When you got to the green you wouldn't be able to see it; obviously it wouldn't damage the environment very much. I think that is a very apt comparison of the damage to the Alaskan environment caused by the Alaskan pipeline.

QUESTION: When that oil starts flowing, you say it's going to cost more. What effect will that have on the cost of other oil, or will there be three prices of oil?

THOMAS: There may be three prices. This may make life more interesting, but it will make it more discouraging for those of us who have the cheaper oil.

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Mr. Thomas was born July 28, 1914, in Cuyahoga Falls, Ohio, and attended public schools there. He was graduated from the Wharton School of Finance and Economics of the University of Pennsylvania with a B. S. in Economics in 1936. From 1936 to 1953 Mr. Thomas was associated with Keystone Custodian Funds, Boston, Massachusetts; from 1953 to 1956 he was a vice president of Pennroad Corporation (now Madison Fund, Inc.) in New York City; and from 1956 to March, 1965, he served as chairman of the executive committee of the M-K-T Railroad Co.

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