
The Entrepreneur

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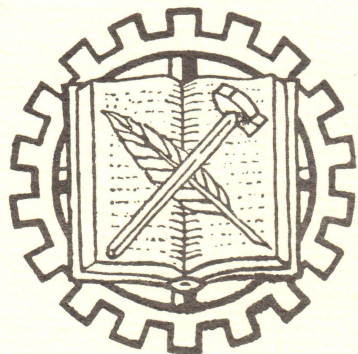
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The Entrepreneur*

This Energy Business

by R. B. Hyde

R. B. Hyde is President of the Houston-based Oilfield Products Group of Dresser Industries, Inc. A 1949 graduate of Texas A. and M. University in Chemical Engineering, Mr. Hyde spent two days on the Harding College campus recently speaking to the student body and guests.

The following is his address at a dinner meeting of the American Studies group and guests.

As a businessman I would be less than forthright if I did not tell you that today the business community has a lot of problems, and I'm sure you're familiar with most of them: We have problems in relationships with our employees; we have problems in our relationships with unions; we have problems in relationships with government; we have problems in relationships with regulatory bodies. There is a problem, however, that is very shortly going to supersede all other problems. Regrettably it is not getting the attention in this country that it warrants. That is the problem of energy. If we do not solve this problem, you are not going to be successful in business because there will be no business to be successful in!

Tomorrow Has Arrived

That sounds like a fairly broad statement, but let me give you some things to think about. In the U.S. this year with a 6 percent of the world's population, we're going to consume 42 percent of the energy consumed in the world. That includes electrical, natural gas, oil, coal, nuclear, every form of energy. You add it up, we're going to consume in this country 42 percent of all of the quads — the quadrillion BTU's that are going to be consumed in the world. In fact, if you add the Canadian population and the Mexican population, and talk about North America, those three nations will consume roughly as much energy as the rest of the world.

Businessmen are used to saying, "Let's build a new plant. Go build a new plant in Searcy, Arkansas," and they pick the phone up and say, "Call the power and light people and tell them we're going to go there and build a new plant. We need another two or three hundred thousand kilowatts." And we're used to saying "Fine, when do you want it, where do you want it, you can have

all of it you want." We're used to building a plant to operate some high heat-treat furnaces. We're going to build a plant to operate in a cold climate. We're going to build one in Michigan or Pennsylvania. Call the gas people up and say "We're going to need a couple of billion cubic feet of gas next year." No problem. Right there you are just a half mile from the pipeline. That's what we're used to. It has insidiously seeped into all of our lives.

Would you believe I've got sort of the standard American household. By the way, you can make money getting people to bet you about this. Ask somebody a question "How many radios you got in this house?" Now most people say, "Oh, radios, nobody listens to radios anymore — it's TV." The typical American house now, guess what, it has three television sets. Some have eight. I think the last time I counted there were seven television sets in my house. But I bet on this question as to how many radios I had. I could only think of one by the bed, and a guy took me. It cost me a hundred dollars; that's how much I bet. I'd overlooked the fact that in my three automobiles there was a radio in each one and there was one in the kitchen. Then there was the intercom system, and there was one by the bed. There was one in the stereo — there were nine radios in the house. What about the typical kitchen? We've got two ovens. We have central heat and eight tons of air conditioning.

Options and BTU's

Guess what we're doing now — buying a microwave oven. You buy a microwave oven so that you can thaw that frozen stuff quicker; you don't want to wait — that's America. Now guess what we're doing. It took a bunch of BTU's to freeze the stuff to begin with. Okay, now we're buying another oven to thaw it; but we don't like the way it browns things, so fry it in one oven, and move it to this other oven. It all sounds simple, except look at the BTU's — there's nothing unique about my house — we're doing this everywhere in the country. Now look at the kids who walked in the other day. They consider me old fashioned; I still brush my teeth with my hand, and that's a sign of age. They've got these electric motor jobs — BTU's; see, my arm movement is calories, and that electric motor is BTU's.

* The acting, organizing enterpriser in the world of commerce.

Just stop and think, practically all the people sitting in this room are dressed in hydrocarbons. Stop and think about that. BTU's. We have become saturated with BTU's, but I think there is a problem here. We don't know how to live otherwise. How many farmers do you think you have in Arkansas now? How many of those know how to farm 640 acres with a team of mules? You couldn't buy that many mules in this country. They don't exist; but those big tractors — BTU's. Now go ask those farm people and they'll tell you right away: If you shut the fertilizer down, forget it, we're going to starve to death. Guess where the fertilizer comes from? Hydrocarbons, petrochemicals, BTU's. We don't know how to live any other way.

Push Comes to Shove

Anyone who thinks we're going to solve the energy crisis in this country with massive doses of conservation doesn't understand the American public. Consider the attitude of my wife, for instance.

The other day I told a Congressman he was in serious trouble. He asked, "Why?" I said, "My wife's mad at you because you haven't done anything. And the day, for instance August 1, when someone tells her in Houston to turn the air-conditioning off and that she can't use her Oldsmobile any time she wishes, you, Congressman, are in trouble right then. She won't worry about why; she won't care what political party you're with; her attitude will be 'throw all the rascals out.' She feels that anyone who wants to live in Houston in August without air-conditioning must be a "no good" and she would get rid of him."

What kind of business world do you think we're going to have without energy? I'll give you a forecast that was made not too long ago by probably the world's greatest chemical engineer, Dr. John McKetta, University of Texas. He made the prediction if we keep going at the rate we're going right now with the present government policy by 1985 — I did not say 2085, I said 1985, that's not too far away — escalators in the country will be banned. Elevator use will be severely restricted to the aged and infirm. Limit meters on all houses will limit the number of kilowatt hours you can have of energy. When you use that up the heater goes off, and the house is totally without power. You will have tens of thousands new government employees called "regulators," who will come around to your house to insure that in the wintertime you have the temperature low and in the summertime you have it high.

He also said that it's obvious, the studies have been made, there will be a serious decline in the gross national product. Unemployment will be somewhere between 14 percent and 20 percent, prime interest rates will be at least 15 percent, double digit inflation in high numbers will exist and the worst recession or depression in history will be in process. Now I'm not talking about something that will happen in the year 2000. I'm talking about 1985. Let me tell you why. We have a great tendency in this country, for we can find something on which to blame problems.

Cause and Effect

We're doing the same thing about energy, we're saying it's all the Arabs' fault. I've got news for you. The facts of the matter are that we were in trouble long before we had an Arab embargo. All that did was sort of get your attention. Understand this. In the natural gas business in 1954, the government froze the price of natural gas at a level below the cost of finding new gas. The day we did that we had 18,000 people in this country looking for natural gas. Last year we had 4,000 looking for natural gas. Would you believe that the production of natural gas is going down? Now guess what happened? It's beautiful, clean fuel, you see. Guess what happened when they put the price control on it? You got the domino effect. All of the sudden here is the premium fuel. It was dirt cheap. Everybody wanted it. So the consumption went up and the production went down. But when that consumption of natural gas went up, guess what it did to the coal business? It destroyed the coal business.

Would you believe we're not producing as much coal in tons per year in this country today as we did 30 years ago? We're sitting on a sea of coal, a 250 years' supply. Why aren't we producing coal? Well, that cheap natural gas has depressed the price of energy to the point where you can't make any money in the coal business. One other little problem: if you could produce it, government regulations won't let you burn it. Well, there's a little problem there. The fellas came along and said, "write new regulations." My friend McKetta made a little study about one of those plans, taking a hole was on the borderline as far as sulfur content. He said, "Trap all the SO₂ coming out of those stack-gasses; let's convert it into gypsum." Operating that generating plant one year, we create a lake of gypsum thirteen feet deep, four square miles. We could handle the first year, but by that tenth year we don't know what to do with all that stuff.

Zero Risk?

Now this is one of the problems. We've gotten a little carried away in this country with the attitude of "zero risk." You've noticed what's going on in the nuclear energy field. I was in Washington for the biggest conference in the world about nuclear energy. Guess what the U.S. position was? We've not going to build anymore nuclear plants. We're not going to do anything until we get everybody to sign this nonproliferation treaty. One of my lawyers was sitting there and he said, "That's an interesting comment, Hyde, are you aware of the fact that that nonproliferation treaty has got a sixty-day cancellation clause in it?" I said, "What are you trying to tell me?" He said, "That State Department guy just got through saying we will not sell those plants overseas until all those nations sign a treaty, and in the treaty is a clause which says that all you have got to do is notify the U.S. and give them sixty days notice to cancel the contract." You don't have to go to law school to figure out that there's something awfully funny about that. But we are not going to have the nuclear energy in this country that we need. We also made a decision not to build a recycling plant on the fuel end.

Now, we're using in this country right now about 40 million barrels a day of crude oil equivalent energy. Last week this country imported 42 percent of all the crude oil consumed in this country. Last March we had an interesting week in which we imported more than 50 percent of what we consumed. Last year that imported oil cost us \$3 billion. This year it costs \$37 billion. Now, we paid for it because we exported in excess of \$20 billion worth of foodstuffs. We have a little problem coming up on the horizon: those two great climatologists at Minnesota have announced that we're in the second year of a major seven year drought period, and three years out we won't have very much foodstuffs to export. If we can't sell that \$20 billion worth overseas by that time, you see, that crude oil cost will be up to \$60 billion. We're going to wind up doing the same things as the Mexicans did devaluing the currency. Theirs went from 12 cents to 4 cents. The worst is not over.

Back to the Wall

Oil and gas now contribute 75 percent of the total energy in this country, and there's literally nothing we can do to change over in short term. We're going to solve our problem through at least 1990 by figuring out how to use more oil and gas. We simply can't get the coal that quickly; we can't get the nuclear that quickly. If we don't get some changes in government policy, we're not going to ever get either one. If we keep going at the rate we're going, and take a 7 percent escalation on OPEC prices, in 1985 we will have to pay \$400 billion dollars to OPEC for the oil we need. Now let me tell you something else you better understand. All Americans better understand this. It doesn't make any difference who's the President of the U.S. at the time, whether it's a Ford or a Carter. Some guy is going to be faced with the single worst problem any American president has ever had.

He will walk into that first meeting of the National Security Council and his staff will tell him that three men in the world, none of them American, one in Arabia, one in Iran, and one in Kuwait, can literally, by closing the valve, destroy the U.S. We will have a situation where we will not be able to heat a single house, we couldn't drive a single car, we couldn't keep a single factory operating. We lose that crude. I'm talking about something that's going to occur right at the prime of your lives, and what I'm really saying is here's another problem that we can't get anybody in the Congress even concerned about. If we don't solve it, you will not succeed in business because there will be no business to succeed at!

I guess you think, "Well the guy should have come here with nothing but good news." Well, I'm sorry about that, I made a reputation of telling people things the way they really are. How are you going to get out of the problem when that happens? Guess what's in the game plan? You are the president of the U.S., 1985, and your National Security Council has convinced you that these three men can shut this country down. What are you going to do? Well, the first choice is to take the 101st and 82nd That's one choice, but we have reached a point in this country where that's politically very difficult to pull off.

Now the other choice is, you can say now let's go on a Manhattan project type basis and solve the energy problem. And now you want to do it in 12 months. Or 24 months. Okay, guess how you do that? You announce that private industry can't do it that quickly. You call the Corps of Engineers to occupy all the western coal reserves, write the land owners a check, take their property away from them, and we want you mining that coal next week. You do a crash program. You take over all the oil companies. That's assuming that we've survived this Divestiture hanky panky up to that time, and that's questionable. But if we still have nice oil companies that are capable of doing something, you take those over. And when you do all of those things to solve the energy problem. See, you also have to take over all the utilities, all the gas transmission lines, all the gas distribution — most of American industry is what you take over to solve the problem.

Capitalism Reputiated?

And what you have done is killed capitalism or free enterprise or what ever you want to call it. That's the end of it right there, all because we did not understand the energy problem we have. That sleeper on the deck that not too many people are worried about may well be the death of the way of live in this country. Now on the Divestiture question, let me just make a comment here. I've spent an entire career working with these oil companies. They literally don't understand their own problem most of the time. They've all of a sudden awakened and said, "Now wait a minute; there's a bunch of people here that want to destroy us." It's just beginning to totally sink in to them. I know most of those men at the top of those companies. They're worried about literally hundreds of thousands of employees. They're worried about shareholders. They're worried about their own problems. They're just like you are when you get up in the morning. All of them put their pants on one leg at a time. They literally don't really know what to do.

Now you see the vogue is that we will destroy those companies and break them up into little bitty pieces. If you do that, one thing is certain. You will not have either the organizational capability nor the capital capability to go take on any Alaskan pipeline; and you think that's a big project? That's a big project; that's about \$10 billion. We've reached the point now that platforms in the North Sea cost so much that 12 platforms in the North Sea are now equivalent to one Alaskan pipeline, costing about \$800 million a platform. You can't do that if you're a little company. You've got to be big or there's no way to put that much capital together. So they break up those oil companies. Either you're not going to develop the North Sea or you're not going to develop Alaska's North slope, or you're not going to develop the Gulf of Alaska, or the government will.

Public Interest Issue

That's supposed to be done in the name of the public. Who's going to get hurt? Ninety percent of the

stock of the six biggest oil companies is held by 14 million individuals, 91 colleges and universities, 200 insurance companies, and a thousand charitable educational institutions. Now if those people own the oil companies, how are we going to help the public by destroying their investment? I just don't see that. Well, I've told you we're doing some things right now in Washington that precludes solving our energy problems with the nuclear business, and gas is in bad trouble.

I mentioned we're not producing as much coal right now as we did 30 years ago, and that's the truth. We need to triple coal production. Can't do that the way we're going now. We're just buying more and more of that nice black stuff from overseas because we can still afford to do it. My thesis is that when we get to 1985, long before '85, we won't be able to afford it. And when that happens, you and I are going to live in a totally different America. Now, one other comment I must make about our environmental problems, and I consider myself an environmentalist. I'm continually confronted with people who say, for example, in nuclear energy fields, we shouldn't build those plants because they may be unsafe. I find the whole thing strange, this attitude in the country about "zero risk." That's what the EPA wants, zero risk in everything.

Let me tell you something to think about. From 1958 to 1976, there were 848,544 automobile-related deaths. And in that same period the injured accounted for another 75 million. I don't hear anyone saying, "Let's ban the automobile." Last year in this country, 70,000 school teachers were assaulted in their classrooms. I haven't heard anyone saying, "Let's ban classrooms." Last year in the country we killed 154 miners in all mining operations, and we electrocuted a thousand people with faulty appliances and power lines. I haven't heard anybody say, "Let's shut down all the electric power." Americans have historically been willing to accept some risk if there was great gain. If we get to the point where we're saying, "Don't develop anything in this country until you're absolutely certain there is zero risk," we're

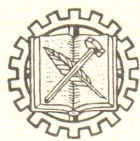
through. We're finished. I think we have to come back a little bit more to the center of the road with some of these environmental questions.

National Energy Policy

Now one thing's obvious. We have to get a national energy policy. We must mine that coal, we must drill for that gas, we must find some more oil. We're going to have to do it in those horrible places way out in the Gulf of Mexico, way up in the Arctic, off the east coast, in the Gulf of Alaska, out in the middle of the desert, and yes, it's going to be expensive. We're either going to do that or we're going to have those three fellas wearing those robes sitting on those valves, deciding what we're going to do in this country. It's just that simple. We can't have it both ways. That's the way it's going to be.

Don't pay any attention to what you hear about the solar business. That may help your grandchildren. I'll give you a little comment right here. If we took all the houses and all the buildings built in this country from beginning tonight to the year 2000, and if we had the technology, if we totally heated and cooled all those structures, every new structure built in this country to the year 2000 from tonight, if we could do that with solar energy, when we got to the year 2000, solar energy would be contributing 6 percent of the energy consumed in this country. So, don't let anybody lead you down the garden path that all we need to do is to put another \$4 billion in solar research and that's going to solve all the problems. We won't have the breeder reactor until about the year 2000 in commercial quantities. We won't really have fusion until about 2050 probably and solar really beyond the year 2000. We're going to solve our problem with coal, and oil, and gas, and conventional nuclear power. We're really going to solve the problem with young people like you who are aware of the problems.

Go join those business organizations and governmental organizations, and get involved. Get out there where the game is played. Just remember, you have to live with yourself. Be careful how you measure success.



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