ly output has jumped to 100,000 barrels since it purchased Belridge Oil some two years ago for $3.65 billion. That move, in fact, represented a major commitment to enhanced oil recovery. Belridge owns 7,000 acres of heavy oil in California.

By mid-decade, if total thermal production reaches 450,000 barrels a day and heavy oil prices average $32 per barrel, it could bring in combined earnings of some $700 million annually for these corporations. In the 1990s, with newer recovery processes, profits will run into the billions.

Besides such integrated oil giants and a few larger independents—who may thus be assured of a domestic supply source for years to come—what other companies will profit from enhanced recovery?

One beneficiary is UGI Corp., a gas utility with a growing sideline in delivering CO_2 to oilfields. Another is Production Operators Inc., a leader in CO_2 and nitrogen-enhanced oil recovery techniques as well as a maker of compressors for gas recovery. A third potential winner could be Indiana-based Sullair Corp., an air compressor manufacturer that is developing a way to deliver steam injection to greater depths and with less heat loss.

Enhanced recovery is far less risky than synthetic fuels. "Even if a barrel of oil falls to $28 for a year or two it won't mean that much," says First Boston's Thomas Petrie. "The overriding factor at this point is the favorable tax rate." Adds another analyst: "Only if oil prices turn down and stay down for three or four years will a serious erosion in the economic return on enhanced-recovery investments occur—and I don't think that's going to happen."

Enhanced-recovery methods won't solve our energy or oil import problems. But it could prevent them from getting worse. As enhanced recovery increases, primary production will probably drop. New domestic crude will become harder to find, and existing reserves will dwindle. The result, according to a Shell expert, is that the U.S. will be getting well over 50% of its domestic production from enhanced-recovery methods by the end of the century.

A quicker and more likely result of the growing interest in enhanced recovery may be an acceleration of the trend toward sellouts by smaller operators of partly played-out properties. Or the capital costs of enhanced recovery will make it attractive to hook up with a big oil partner. Louisiana Land & Exploration, for example, is already working with Exxon to develop its Jay-Little Escambia Creek field in Florida through nitrogen injection.

The new technology puts pressure on smaller independent oil producers in another way, as well. Most of these exploration-oriented companies pay little or no current tax. "They can't write off most of this stuff," says Paine Webber's Lazier. "How are they going to finance a project when their interest cost is a real aftertax cost?" Result: an incentive to sell out to well-heeled oil companies. The entrepreneurs who squeeze out these last drops of profit from the ground are far more likely to be anonymous corporate giants than traditional oil-patch swashbucklers. ■

Who has been making a killing in Conoco?

Winners and losers

By Alyssa A. Lappen

NO MATTER HOW the Conoco battle comes out, there are some very big winners among mutual funds and other institutional investors. The giant oil company is a favorite of the institutions; they own 62% of its stock.

The biggest profits go to Los Angeles-based Capital Group, Conoco's largest shareholder. The firm, which oversees some $10 billion in assets, held some 4 million Conoco shares as of Mar. 31, the most recent date for which ownership data are available. Other institutional investors with major stakes include Citicorp (2.3 million shares), the College Retirement & Equity Fund (1.3 million) and Mellon Bank (1.2 million).

Capital's stock—now a 3% stake in Conoco—is spread among several accounts, but one subsidiary's clients alone stand to make $100 million. Robert Kirby, a Capital money manager, picked up most of his Conoco holdings in 1978 and 1979 at an average price of $35 or so. He cashed in over 700,000 shares when Dome Petroleum tendered for $65 in June and then bought back nearly 200,000 shares weeks later when the price dropped to the low 50s.

That made Kirby a double winner. Still, he admits to betting right for the wrong reasons. Kirby bought into Conoco for its domestic rather than international reserves as well as major coal holdings. He never dreamed of a takeover. "We were mostly lucky, not smart," he concludes.

Relative to its size, however, perhaps the biggest winner was Wellington Management Co., which runs Vanguard Group's $1 billion Windsor Fund. The famous John Neff and his partner, John Nyhein, help run this outfit, and they accumulated most of their 750,000-share block of Conoco between January and April at an average price of $52. Did they have inside information? No, just common sense. "We bought Conoco because its price/earnings ratio made it the cheapest domestic oil stock," says Nyhein. "People take over companies because they are cheap."

But smart people can make mistakes, too. Note some of the famous names who were sellers of Conoco. During the first three months of 1981: Morgan Guaranty, the T. Rowe Price funds, and Warren Buffett's Berkshire Hathaway. And consider the plight of Minneapolis-based Investors Diversified services, which manages $5.5 billion in mutual funds. It bought 300,000 Conoco shares in the fourth quarter of 1980 when the price was peaking at around $70. Come early 1981 and the talk of an oil glut, the boys at IDS unloaded 200,000 shares—taking a loss of perhaps $3 million. Whipsawed they were. Red-faced, too. ■