PETROLEUM PRODUCT SHORTAGES

HEARINGS

BEFORE THE

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS UNITED STATES SENATE

NINETY-THIRD CONGRESS

FIRST SESSION

ON

THE IMPACT OF PETROLEUM PRODUCT SHORTAGES ON THE NATIONAL ECONOMY

MAY 7, 8, 9, 10, AND 11, 1973

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PETROLEUM PRODUCT SHORTAGES

MONDAY, MAY 7, 1973

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING,
AND URBAN AFFAIRS,
Washington, D.C.

The committee met at 10:05 a.m., pursuant to call, in room 5302, New Senate Office Building, Senator Thomas J. McIntyre presiding.

Senator MCINTYRE. The committee will come to order.

The Senate Banking, Housing and Urban Affairs Committee begins a series of hearings today on the impact of petroleum product shortages on the national economy.

During this committee's consideration of the extension of the Economic Stabilization Act, it became increasingly apparent that serious supply problems were developing that would cause a significant adverse impact on many sections of the Nation and on the economy in general.

Because gasoline shortages with a rippling effect were expected this summer, causing a tight supply situation with other oil products such as home heating oil, diesel oil, and jet fuel, I offered an amendment during this committee's consideration of the extension of the Economic Stabilization Act that was included in the bill signed by the President on April 30.

This legislation provides the President with authority to act during period of petroleum product shortages to (1) establish an allocation procedure among the various sections of the country which clearly sets standards and criteria for priorities of use; and (2) implement a program that will assure that sufficient supplies of petroleum products are made available to all segments of the petroleum industry in a manner designed to prevent anticompetitive effects from developing within the petroleum industry itself.

I fear that if the President does not take steps immediately to implement the authority granted to him in the Economic Stabilization Act this country will experience a severe curtailment of necessary petroleum supplies this year and a substantial segment of the petroleum industry comprised exclusively of small businessmen will be destroyed.

Because of the urgency of this matter, I have written to the President this morning urging that just such action be taken. I find it impossible to understand why there should be any hesitancy to move quickly to implement a rational allocation procedure at the present time.

The law does not—and I repeat—does not require (1) a detailed rationing system such as was in effect during World War II, nor

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does it; (2) require an abridgement of existing contractual rights between suppliers and their customers; nor does it: (3) establish a precedent for the nationalization of Federal operation of the petroleum industry. What it does, however, is give the President clear authority to take steps to assure that all sections of the Nation are supplied with these essential products on a priority of use basis and also makes it clear that the Federal Government has the authority to exercise its responsibility to maintain a meaningful level of competition within the oil industry, so vital to the consumer.

The independent producing, refining, and marketing segment of this important industry is comprised almost exclusively of small businessmen. Their role is essential, both to competition within the industry and to the consumers of petroleum products. In my judgment, clear and positive steps must be taken to assure this independent segment of the petroleum industry a fair opportunity to continue to exist and compete.

Time is of the essence, and, if actions are not taken swiftly irreparable damage will occur.

The seriousness of this situation cannot be underestimated. The petroleum industry has for years been the recipient of a seemingly unending series of special-interest treatment and legislation, always supported on the basis that the industry must be given special treatment because of its importance to the well being of our country.

What other single industry has been granted the same preferential treatment?

None that I know of.

Congress has given the oil industry tax benefits covering drilling costs, foreign taxes paid, depletion allowances, and numerous other benefits—including, for the last 14 years, a mandatory oil import quota system whose stated purpose was to make certain that what is happening today would not happen.

These hearings represent, in my opinion, repudiation of the argument that what is good for the oil industry is good for the American people. Billions of dollars of lost tax revenues and a continuing series of special preferential actions have only brought us to the crisis we face today—an inability to meet our own crude oil demands domestically; an inability to domestically refine our own petroleum needs; and an ever growing reliance on foreign rather than domestic sources to meet our needs.

The failures are apparent.

What we need is a thorough examination of our past actions and the development of a new way to look at this problem. Energy will undoubtedly be one of the country's most serious problems for the next several decades. The President's recent energy message was a recognition of this fact.

While offering a partial new approach in some areas to our energy needs, the part of the President's message dealing with oil still clung to the old wornout approaches. While he did recognize the total failure of the quota system, something that a number of us have been saying for years, the President, in his message, again took the same old approach of offering the petroleum industry more incentives, more tax credits, more subsidies, and less regulation, in return for supplying this Nation with fuel.

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I think the time has come when we should take a different look: less subsidies, less tax favoritism, and more regulation.

In order to assure the public health, safety, and convenience, and prevent unfair competition and eventual monopolization; State and Federal governments have found it necessary to regulate a number of industries.

The energy problems that we are now faced with might well require similar action for the petroleum industry. In my opinion, what happens this year and the manner in which these petroleum product shortages are handled will be the decisive factor as to the proper course to follow.

This committee's responsibility, as is the responsibility of every other congressional committee. is to assure that the intent expressed in legislation is implemented by the executive branch.

The intent of the allocation section of the Economic Stabilization Act, in my opinion, is clear. The language of the section and the legislative history provides that the authority contained in this allocation provision only becomes operational when petroleum shortages occur.

The purpose of these hearings is to determine whether the circumstances have developed warranting action by the President. The committee has invited a variety of witnesses, all of whom I am sure will take varying positions concerning whether the President should implement and exercise the authority granted to him to allocate petroleum products. We will be fair, we will be open. All sides will have their say.

But as I see it, the shortage is so severe, the impact on the small businessman and consumer so harsh, and the intent of Congress so clear, that the burden of proof is on these who would not have the Federal Government act to meet this crisis.

Before we hear testimony from the gentlemen here today, let me say that Senator Tower and Senator Stevenson had planned to be present and have statements which we will insert in the record at this point.

[The statements follow:]

STATEMENT OF JOHN TOWER, U.S. SENATOR FROM THE STATE OF TEXAS

Today we commence five days of public hearings for the purpose of focusing attention on a problem of major concern to all Americans—the critical shortage of domestic fuels. In recent weeks and months the press and media have given increasing coverage to what has come to be called "the energy crisis." This crisis—and a few question that the situation has reached crisis proportions—is no longer merely a hypothetical possibility. It is real. It is today. It manifests itself in a most poignant manner—through the critical shortage of gasoline and related products.

This committee will benefit during the week from testimony to be presented by varied segments of our society touched to various extents by the fuel shortage: the transporter, the producer, the large volume user, the jobber, the major, the consumer, and the Federal government. The size of the witness list underscores the seriousness and scope of the problem which confronts us. Hopefully, the statements will provide us with the requisite information to go forward in encouraging administrative and indeed legislative relief, should the proper avenue be made clear.

The direct effects of the shortage in petroleum products are indeed being felt by the small businessmen as well as by the larger companies. A week or so ago, the gasoline jobbers in my state met in Dallas to seek answers to the critical problems confronting them at the moment.

Many are faced with the prospect of closing their businesses in the immediate future absent some relief. Not only would the urban consumer be incon-

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venienced by the closing of such a large number of gasoline stations, but of particular concern to me, the farmer, who often relies on the jobber to provide him with the gasoline for the operation of his farm vehicles, would be unable to secure the requisite fuel, thus forcing a shut-down of his agricultural operations. The end-result of such an eventuality is painfully obvious.

Likewise the major companies are faced with acute problems, engendered by shortage, and indeed aggravated by the complex and oft times unworkable pricing strictures which have been built into our economy in recent months. Testimony from the Cost of Living Council, the Treasury, and other official sources this week should add clarification to this special problem and hopefully provide some guidance and relief.

Mr. Chairman, I am gravely concerned about the effect the fuel shortages will have upon the general health of our economy. We must face the increasing likelihood that the nation will simply not be able to meet its fuel needs. In such a case serious consideration must be given to the allocation question: Who will get the supplies that are available?

What of the farmer, the airlines, the city police and fire departments, the municipal public transportation systems? What of the average citizen, the consumer, who utilizes his automobile each day for transportation to work, or for pleasure?

The ramifications of the energy crisis are clear. They are being felt now by each of us. Thus answers must be found to many questions, such as:

How did the shortages develop?

What can be done to prevent future and more serious shortages?

What would be the effect of phasing out the quota system?

What effect would the shortage have on the economy?

What can be done today to correct the current imbalance between supply and demand?

I do not pretend to have the answers. The questions, though brief, are complex and defy easy answer. I am pleased that the Congress, this committee, and the general public are awakening to the fact that the nation faces increasingly more frightening energy problems in the years ahead. It is unfortunate that so painful an occurrence as this severe fuel shortage must evolve in order for the "awakening" to transpire.

I hail these hearings as representing an important step in the awakening process. I trust my optimism is not mislaid.

STATEMENT OF ADLAI E. STEVENSON III, U.S. SENATOR FROM THE STATE OF ILLINOIS

Mr. Chairman, I welcome these hearings. They will give the Banking Committee, and in turn the Senate and the nation as a whole, a chance to study today's petroleum shortage. And from these hearings we may be able to propose some solutions.

I had a chance during the recent Easter recess to meet with independent petroleum refiners, marketers, and retailers in Illinois, and I can assure you that for them the "energy crisis" is all too real. Many of these independents are being forced out of business by the cut-off of their supplies by major oil companies.

The Penn-Guin Oil Company, a branded independent distributing Citgo Products in Chicago, has been a family business for more than 60 years and has been associated with Cities Service since 1930. It has been told by Cities Service that its contract will be terminated as of May 31. The owner of Penn-Guin believes this will effectively put his company out of business.

The Cropsey Independent Oil Company of Cropsey, Illinois, has been a family business for 18 years. Now its independent supplier, Hicks Oil and Hicksgas of Roberts, Illinois, which also receives its product from Cities Service, has been cut off—and in time this independent may be forced out of business.

The Concord Oil Company operates 12 independent gas stations in the Chicago area. Concord's suppliers have been Triangle Refining, Conoco, and Clark. Triangle closed its Chicago terminal on April 15, and Conoco has put Concord on allocation. Concord may soon have to close all 12 of its stations.

These are but a few examples. There are many other independent companies in Illinois which are in similar straits, and the number of stations runs into the thousands.

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Yet the major oil companies, who are cutting off the independents, seem to have their shortage tanks full in the Chicago area. And many of the majors are reporting record first quarter sales and profits.

This threat to the independents cannot be ignored. The biggest loser if the independents are forced out of business will be the consumer. The independents "keep the majors honest" in their pricing practices. They provide the primary source of competition in an industry that sorely needs competition.

The Nixon Administration has ignored the threat. Two weeks ago an administration spokesman was reported to have said there is no present or prospective gasoline shortage of any major proportion, and that "just a few independents" and "a few marginal gas stations" may be forced out of business. Gasoline would be available, it was said, down the road at the next station. The "next station," of course, will be owned by a major oil company, and the cost will be many cents more per gallon with the extra profits going to the big companies.

The Administration, through the Justice Department, should be conducting a major investigation of the practices of the major oil companies. My talks with the independents and the evidence they presented to me strongly suggest the need to determine whether the major oil companies are violating the antitrust laws. The actions of the majors are curtailing competition. Gasoline is not being made available to the independents, and yet the majors are opening up their own discount stations. Independent refiners are not selling to independent marketers because the majors can promise the refiners a continuing source of crude oil if the refiners in turn give the majors first call on their refined products. Many refineries are not being operated to their full capacity, and it is uncertain whether this is solely the result of an overall shortage of crude oil or whether certain major refineries are deliberately being operated at less than maximum capacity.

Despite such evidence, I see little to suggest that any investigation is contemplated by the Justice Department. With the imminent prospect of price increases that may raise the cost of gasoline to 50 cents a gallon at the pump, there can be few higher priorities in the antitrust field.

Such an investigation might take some time, however, and action is needed now to preserve competition in the oil industry. Last week Congress passed—and the President signed—the Economic Stabilization Act Amendments of 1973. Section 2 of that Act gives the President the authority to systematically allocate supplies of petroleum products "in order to meet the essential needs of various sections of the Nation and to prevent anticompetitive effects resulting from shortages" of petroleum products.

I might note that the Administration opposed that section of the Economic Stabilization Act. It didn't want the authority. And yet just three days after the bill was enacted the Acting Director of the Office of Emergency Preparedness, Darrell Trent—who will be testifying later in these hearings—was saying that indeed there may be shortages of gasoline this summer in certain parts of the country, and the Administration might have to allocate supplies among various sectors of the nation. But there seems to be no word about saving the independents now. Mr. Trent seems to imply that later this summer—after most of the independents are out of business—the Administration might have to allocate some of Standard of New Jersey's gasoline to Standard of Indiana, and maybe vice versa to even things out.

Time and again, the President and his advisers have acted to favor big oil and harm small oil and the consumer. A Presidential task force on the oil import quota system recommended in 1970 that the quota system be scrapped. Senator Kennedy and I, along with over 30 of our colleagues, urged a temporary suspension of the quotas in Senate Joint Resolution 23 introduced in January of this year—and I recommended a similar action in letters to the President and the Secretary of the Interior last year. But until a few weeks ago the President failed to heed any of these recommendations and took only the most incremental steps in regard to the quota system. He now says he realizes that the mandatory program was "of virtually no benefit any longer."

In his energy message, the President gave us a new "license fee" system. But it is doubtful that this change will benefit the independents at all, and in other sections of his energy message Mr. Nixon proposes other actions that promise more of the same—millions of dollars in tax breaks to the major oil companies and billions more in costs to the consumers of energy.

Section 2 of the Stabilization Act Amendments gives the President the specific authority to help independents and consumers. Today, the major oil

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companies control about 95 percent of the refining of oil used in the country. They control 68 percent of the retail gasoline outlets. If the majors are alowed by the Administration to use the present fuel shortage for their own purposes and allocate petroleum products according to their own formulas and priorities, they will surely push that 68 percent much higher and could end up monopolizing every phase of the oil production and distribution system.

These hearings, then, take on certain aspects of an "oversight" hearing. The problem was already grave when less than two months ago this Committee reported the Economic Stabilization Act to the floor with the Section 2 allocation provision. Last week that Act, with the provision intact, was enacted into law. Just before the bill was passed in the Senate I urged the President to use the allocation section to save the independents, and on Friday I joined Senator Hart and 33 other Senators in sending a letter to the President to the same effect. Later this week, Administration spokesmen are scheduled to testify in these hearings, but as of today there is no hint that the Administration will use the authority given it to preserve competition in the oil industry. Should the Administration fail to act quickly, this Committee and the Congress as a whole should act by passing mandatory legislation. Senator Humphrey has offered the vehicle for us to use if necessary—S. J. Res. 98, which is before this Committee in these hearings and of which I am a cosponsor.

The oil companies are fond of telling us that "the Nation that runs on oil can't afford to run short." I would only add that the Nation that runs short of independent oil companies may not be able to afford the gasoline it needs. Action must be taken now to preserve the independents and protect the consumer.

Senator McIntyre. This morning we will proceed in our testimony with a series of two panels. The first panel—I am happy to welcome these gentlemen to the table here—Mr. Weldon Barton, assistant legislative director, National Farmers Union, Mr. Paul Ignatius, president, Air Transport Association, Mr. Ed Kiley, vice president, research and technical services, American Trucking Association, Inc., and Mr. James R. Smith, president of the American Waterways Operators, Inc.

I want to welcome you all here this morning. We are anxious to hear what you have to say, your findings out in the country. We need your testimony very badly in the overall picture. I think it has been arranged that each of you will testify individually for something in the vicinity of 10 minutes and at the conclusion of that, we will have a few simple questions to put to you: Mainly we want to get your story and the story of other people who will be testifying after you.

Mr. Barton.

STATEMENT OF WELDON V. BARTON, ASSISTANT LEGISLATIVE DIRECTOR, NATIONAL FARMERS UNION; PAUL IGNATIUS, PRESIDENT, AIR TRANSPORT ASSOCIATION; EDWARD V. KILEY, VICE PRESIDENT, RESEARCH AND TECHNICAL SERVICES, AMERICAN TRUCKING ASSOCIATION, INC., JAMES R. SMITH, PRESIDENT, AMERICAN WATERWAYS OPERATORS, INC., ACCOMPANIED BY BERNARD GOLDSTEIN, PRESIDENT, ALTER CO., DAVENPORT, IOWA

Mr. Barton. Mr. Chairman, I have four pages here which I would like to read; if I skip a few sentences as I go along, I would request that it all be printed in the record.

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Senator McIntyre. Your statement will be included in its entirety in the record (see p. 10).

You may proceed as you feel you desire.

Now, Mr. Barton, proceed.

Mr. Barton. Thank you very much.

I am Weldon V. Barton, assistant legislative director of National Farmers Union. My organization represents some 250,000 farm families in the Midwest and other agricultural areas of the United States.

Farmers are major consumers of diesel, gasoline, and other fuels for production, drying of crops, and related uses. Farmers have already suffered detrimental effects of fuel shortages; in the Midwest and Corn Belt they were unable to get adequate fuel to dry crops last winter.

Pressures on fuel suppliers are increased this crop year. Some 50 million acres of additional cropland has been opened to production in 1973 as compared to previous years for the purpose of increasing grain and meat supplies. Furthermore, land preparation was hampered last fall by unfavorable weather, and flooding this spring continues to delay plowing and seeding of crops. More fuel, therefore, will be required within a short timespan for preparation and planting and if large crops materialize more fuel will be required for harvest, including drying and transport this fall.

As soon as I accepted your invitation from Senator McIntyre to testify today, I requested information on the fuel situation from Farmers Union Central Exchange, Inc.

Central Exchange, a cooperative with home offices in St. Paul, Minn., supplies fuel oils and other production items to local cooperatives in a 10-State area.

Essentially this 10-State area comprises the upper Midwest and the States in the Pacific Northwest. Some 350,000 farm families patronize the local cooperatives affiliated with Central Exchange—there are 1,100 local cooperatives affiliated with Central Exchange, and these farmers are directly affected by any change in supply and distribution of Central Exchange as the supplier of these cooperatives.

On December 15, 1972, Farmers Union Central Exchange found it necessary to place all local cooperatives in the 10-State region on an allocation system for fuel oils. The allocation has run from as low as 80 percent of previous purchases to a high of 108 percent depending upon the product and seasonal demand, depending upon the product and the available supplies.

Let me say as far as gasoline is concerned, for the month of May, the local cooperatives are on an allocation system of 90 percent. That is, they are allowed 90 percent of the amount of gasoline that they got in May of last year, and that allocation has been projected also to apply to June.

Mr. Robert A. Ovens, manager of petroleum marketing at Central Exchange, informed me in a letter of April 30, 1973, that the allocation system must be continued "for an indefinite period."

Let me say, Mr. Chairman, as far as I know all of the other agricultural cooperatives are, by now, on similar types of allocation systems. This would include Midland, Agway, Farmland Industries

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and other cooperatives that supply gasoline and other fuel products to farmers.

The co-ops combined have 11 refineries that have about 2 percent of the total refinery capacity in the Nation. So, they are highly dependent for fuels upon outside sources. The vast majority of the gasoline and other products must come from the major oil companies and from independents, outside of the cooperatives.

Bob Ovens' letter of April 30 enumerated some of the causes of fuel shortages at Central Exchange as follows:

1. The extremely heavy demand on fuel oils during the winter months for example: No. 2 burner oil sales increased 28.66 percent for the months of October, November, December, 1972, over the same three months of 1971; all burner and diesel fuels combined increased 25.21 percent comparing the same three months periods, 1972 versus 1971.

This increase was considerably above both our projections, that is Central Exchange's projections—and the industry's on a nationwide basis draining future supplies.

Towards the end of November we determined that the decision to allocate, although reprehensible, could not be delayed any longer.

2. Suppliers that CENEX relied on to supplement refinery volumes placed strict controls on contractual arrangements. As contracts expired CENEX was notified that either renewals would be on lesser volumes or contracts would not be renewed.

This of course reduced the available gallons for distribution to the patron consumer.

I might add that despite CENEX Supply and Distribution Department's efforts to secure additional supplies from many various sources, beginning as far back as February 1972 and on a continuing basis up until now, these efforts have been fruitless.

3. National Cooperative Refinery Association's Refinery at McPherson, Kansas—and this is a refinery operated by Central Exchange in cooperation with several other cooperatives—has been experiencing problems for some time in securing necessary crude oil on a consistent continuing basis to run at or near capacity. This refinery ran below capacity most of the winter and spring months.

During March, the McPherson refinery which has a capacity of 52,000 barrels per day, ran at 42,000–43,000 barrels a day, about 83 percent of capacity or 17 percent below capacity.

Our Laurel, Montana Refinery has been more fortunate due to availability of crude oil from both domestic fields and Canada. However, this could change also due to unsettled import conditions and internal problems Canada is facing as regards petroleum products.

Mr. Ovens told me yesterday on the telephone that Canada is getting extremely nervous about exporting oil. The Laurel Refinery of Central Exchange gets about 45 percent of its crude from Canada. If this source is cut off, they will be in very tough shape at that refinery. This is the end of the Ovens letter.

Let me say, before I leave Bob Ovens' letter and discussion of Central Exchange, they tell me that this allocation system of Central Exchange is working very well. It has been in effect for some 4½ months, and it could be something that you might want to look at more closely as experience for a possible nationwide allocation system.

Farmers are deeply concerned that they will face fuel shortages at harvest this fall, if not before. Farmers Union takes the position that

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fuels for farm use must receive a high priority among alternative uses in the event of more pressing shortages. Our membership, meeting in annual convention in Omaha, Nebr., March 12–14, 1973, called for increased oil importation. They passed this resolution on priority of usage:

> A specific quota of crude oil imported into the United States must be allocated by federal law to agricultural cooperatives and independent oil refineries.

While Farmers Union's most direct concern is that fuels are available to farmers at reasonable prices, we fully recognize that the fuels problem is one that must be faced by all consumers in a concerted fashion. Farmers Union is an active member of the energy policy task force of the Consumer Federation of America, and we strongly adhere to the following—among other—recommendations of the task force for coming to grips with the Nation's energy problem.

I am running beyond my time. I think I will skip over those specifics at this time, except that I want to emphasize that the proposal to develop the wellhead prices for both flowing gas and new gas should be rejected by Congress. Available data suggests that under controlled prices, there has not been only the opportunity but the actual realization of satisfactory returns for those in the gas-producing business. The same monopolistic features of the gas industry which gave rise to the passage of the Natural Gas Act in 1938 still obtain and, in periods of shortage, there is even greater reason to retain control over the rates at which this energy is sold.

The President's message on energy, while it called upon consumers to pay more for energy and to make sacrifices in utilization, included virtually no measures to loosen the major oil companies, private control over fuels and to force more responsibility by the majors to consumers to consumers and to independent and cooperative refiners and marketers. Accordingly, the Congress we think must move in to fill this leadership vacuum. Congress must insist that a multibillion-dollar Government-funded research and development program on new fuel sources is launched without further delay, and that the research and development effort emphasize non-fossil fuels.

Also, Congress must move without delay to force the major oil companies to make crude oil available to independent and cooperative refiners and marketers throughout the middle area of the United States. According to the best information available, there is currently enough excess capacity in independent and cooperative refineries to prevent the occurrence of fuel shortages this year, and the independent markets must not be forced out if price competition is to be maintained in the petroleum industry. Regardless of whether there is a coordinated conspiracy among the majors to force out independents, this, in fact is occurring. Consumers can only suffer increasingly tenuous supplies and higher prices if the movement toward increased concentration in the petroleum industry is allowed to continue unabated.

Mr. Chairman, that concludes my statement. I will be pleased to respond to any questions that you may have.

[The full statement of Mr. Barton follows:]

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National Farmers Union

Statement of Weldon V. Barton
Assistant Legislative Director
National Farmers Union

Mr. Chairman, Members of the Committee:

I am Weldon V. Barton, Assistant Legislative Director of National Farmers Union. My organization represents some 250,000 farm families in the Midwest and other agricultural areas of the United States.

Farmers are major consumers of diesel, gasoline, and other fuels for production, drying of crops, and related uses. Farmers have already suffered detrimental effects of fuel shortages; in the Midwest and Corn Belt, they were unable to get adequate fuel to dry crops last winter.

Pressures on fuel supplies are increased this crop year. Some 50 million acres of additional cropland has been opened to production in 1973 as compared to previous years, for the purpose of increasing grain and meat supplies. Furthermore, land preparation was hampered last fall by unfavorable weather, and flooding this spring continues to delay plowing and seeding of crops. More fuel, therefore, will be required within a short time span for preparation and planting, and if large crops materialize more fuel will be required for harvest (including drying) and transport this fall.

As soon as I accepted the invitation from Senator McIntyre to testify today, I requested information on the fuel situation from Farmers Union Central Exchange, Inc. Central Exchange, a cooperative with home offices in St. Paul, Minnesota, supplies fuel oils and other production items to local cooperatives in a 10-state area. Some 350,000 farm families patronize the local cooperatives affiliated with Central Exchange, and these farmers are directly affected by any change in supply and distribution of Central Exchange as the supplier of these cooperatives.

On December 15, 1972, Farmers Union Central Exchange found it necessary to place all local cooperatives in the 10-state region on an allocation system for fuel oils. The allocation has run from as low as 80% of previous purchases to a high of 108% depending upon the product and seasonal demand. Mr. Robert A. Ovens, Manager of Petroleum Marketing at Central Exchange, informed me in a letter of April 30, 1973, that the allocation system must be continued "for an indefinite period",

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Ovens' letter of April 30 enumerated some of the causes of fuel shortages at Central Exchange as follows:

1. "The extremely heavy demand on fuel oils during the winter months, for example: No. 2 burner oil sales increased 28.66% for the months of October, November, December 1972, over the same three months of 1971; all burner and diesel fuels combined increased 25.21% comparing the same three month periods, 1972 versus 1971.

   "This increase was considerably above both our projections and the industry's on a nationwide basis draining future supplies.

   "Towards the end of November we determined that the decision to allocate, although reprehensible, could not be delayed any longer.

2. "Suppliers that CENEX relied on to supplement refinery volumes placed strict controls on contractural arrangements. As contracts expired CENEX was notified that either renewals would be on lesser volumes or contracts would not be renewed.

   "This of course reduced the available gallons for distribution to the patron consumer.

   "I might add that despite CENEX Supply and Distribution Department's efforts to secure additional supplies from many various sources, beginning as far back as February 1972 and on a continuing basis up until now, these efforts have been fruitless.

3. "National Cooperative Refinery Association's Refinery at McPherson, Kansas has been experiencing problems for some time in securing necessary crude oil on a consistent, continuing basis to run at or near capacity. This refinery ran below capacity most of the winter and spring months.

   "Our Laurel, Montana Refinery has been more fortunate due to availability of crude oil from both domestic fields and Canada. However, this could change also due to unsettled import conditions and internal problems Canada is facing as regards petroleum products."

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Farmers are deeply concerned that they will face fuel shortages at harvest this fall, if not before. Farmers Union takes the position that fuels for farm use must receive a high priority among alternative uses in the event of more pressing shortages. Our membership, meeting in Annual Convention in Omaha, Nebraska, March 12-14, 1973, called for increased oil importation. Concerning priority of usage, the Convention resolved: "A specific quota of crude oil imported into the United States must be allocated by federal law to agricultural cooperatives and independent oil refineries".

While Farmers Union's most direct concern is that fuels are available to farmers at reasonable prices, we fully recognize that the fuels problem is one that must be faced by all consumers in a concerted fashion. Farmers Union is an active member of the Energy Policy Task Force of Consumer Federation of America, and we strongly adhere to the following (among other) recommendations of the Task Force for coming to grips with the Nation's energy problem:

1. Vastly increased government expenditures for energy research and development programs are essential, together with an overall governmental assignment of priorities and allocation of such funds;

2. A more vigorous effort must be undertaken in enforcing antitrust principles with respect to ownership and control over basic alternative energy supplies;

3. Tighter controls are required over the development and exploitation of publicly owned fuel reserves--for example, modification of procedures and terms by which private companies are permitted to find and market petroleum deposits from public lands, both onshore and offshore, must be adopted, and satisfactory procedures for handling geothermal energy and public lands are essential;

4. Congress should take the initiative toward the formation of a government-owned corporation to engage in finding and developing petroleum deposits and other fuels on publicly held lands;

5. The proposal to decontrol the wellhead prices for both flowing gas and new gas should be rejected by Congress. Available data suggests that under controlled prices, there has been not only the opportunity, but the actual realization of satisfactory returns for

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those in the gas-producing business. The same monopolistic features of the gas industry which gave rise to the passage of the Natural Gas Act in 1938 still obtain and, in periods of shortage, there is even greater reason to retain control over the rates at which this energy is sold.

The President's message on energy, while it called upon consumers to pay more for energy and to make sacrifices in utilization, included virtually no measures to loosen the major oil companies' private control over fuels and to force more responsibility by the majors to consumers and to independent and cooperative refiners and marketers. Accordingly, the Congress must move in to fill this leadership vacuum.

In addition to retention of controls of natural gas prices at the wellhead, establishment of a TVA-type government-owned corporation to serve as a "yardstick" in production and marketing of fuels, and other steps noted above, Congress should:

1. Insist that a multi-billion dollar government-funded research and development program on new fuel sources is launched without further delay, and that the research and development effort emphasize non-fossil fuels. At Farmers Union's March 1973 Convention, our membership adopted the following resolution: "We support research to determine new and adequate sources of power which could replace fossil fuels".

2. Force the major oil companies to make crude oil available to independent and cooperative refiners and marketers throughout the middle area of the United States. According to the best information available, there is currently enough excess capacity in independent and cooperative refineries to prevent the occurance of fuel shortages this year, and the independent marketers must not be forced out if price competition is to be maintained in the petroleum industry. Regardless of whether there is a coordinated conspiracy among the majors to force out independents, this, in fact, is occurring. Consumers can only suffer increasingly tenuous supplies and higher prices if the movement toward increased concentration in the petroleum industry is allowed to continue unabated.

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Attachment A

Farmers Union 1973 Convention Resolution
on Fuel Shortage

"To relieve the fuel shortage crisis and to conserve our oil resources, we urge an increase in oil admitted into the United States under oil import quota. A specific quota of crude oil imported into the United States must be allocated by federal law to agricultural cooperatives and independent oil refineries.

"We support liberalization of oil production regulations by state regulatory agencies.

"We urge increases in oil supplies from sources in the State of Alaska.

"We support research to determine new and adequate sources of power which could replace fossil fuels."

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Senator McINTYRE. Just one quick question: Where do you people get most of your crude oil?

Mr. BARTON. As I mentioned to you, Central Exchange operates two refineries, one at Laurel, Mont. and the other at McPherson, Kans. As I indicated, approximately 45 percent of the crude for that Laurel, Mont. refinery, comes from Canada. Some, a smaller amount of the oil for the McPherson refinery also comes from Canada. I am not sure about the percentage.

For the remainder of the crude oil, there is no direct importation; the cooperative refineries are dependent upon the independents or major oil companies to supply crude oil to them.

Of course, as I mentioned before, Central Exchange does not refine all of the gasoline that Central Exchange makes available to the local cooperatives. It refines about 85 percent.

In other words, about 15 percent of the gasoline must be purchased from the major oil companies by Central Exchange and then made available to the local cooperatives. This figure is higher for some of the other agricultural cooperatives.

There is a particular difficulty at this point of trading tickets and getting crude from the majors. As you know, is that these refineries in the Midwest will to the majors—take oil from the majors that is in that vicinity in exchange for import tickets, and then the majors will import replacement oil.

Apparently, the majors are contending that now with the new fee systems that it is less profitable for them to import and replace oil that they would turn over to refineries in the Midwest and they are therefore tightening down very strongly on trading of tickets.

Senator McINTYRE. Thank you.

Mr. Paul R. Ignatius of the Air Transport Association of America.

Mr. IGNATIUS. Thank you, Mr. Chairman. I, too, have a prepared statement which we have furnished to the committee. I propose to read almost all of it and by paraphrasing certain sections, I think I can give my statement in the time that you allotted.

Senator McINTYRE. Your entire statement will be included in the record. You may proceed to testify in any way you see fit, bearing in mind any time constraints that we have.

Mr. IGNATIUS. Thank you, Mr. Chairman.

Let me say at the outset that I believe the recently-enacted amendment to the Economic Stabilization Act which recommends the establishments of a priorities and allocations program is an important achievement. I am mindful, of course, that this much needed amendment was enacted at the instigation of this committee.

Hopefully, it will not be necessary to put into effect a priorities and allocations program for fuel. But certainly it is wise and prudent to have made provisions for such a program should circumstances require this type of control. I was pleased to learn that development of such a plan already has begun, and I hope that this contingency planning is pursued on a priority basis.

I am certain that these hearings which are being held by the Senate Committee on Banking, Housing and Urban Affairs will contribute much useful information that will help to insure that the

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priorities and allocations contingency plan is equitable and effective.

This hearing comes at a most opportune time. We are grateful that the committee has moved promptly to assure that vital functions, including transportation will have adequate fuel supplies in the event that critical supply problems develop.

Let me turn now specifically to air transportation and how the fuel situation looks to us in the airline industry.

First, a word on the scope of the air transportation. The commercial airlines are the predominant common-carrier of people in intercity service. About 75 percent of the passenger miles of domestic intercity travel aboard common carriers—planes, buses and trains—are by air.

In overseas travel, airlines account for more than 90 percent.

More than 200 million passengers will be carried by the scheduled airlines of the United States in 1973 and that service will grow significantly in the years immediately ahead.

In their landings and takeoffs there at more than 525 airports serving citizens in thousands of cities large and small, the airlines are providing scheduled passenger, freight, and mail service through some 13,800 flights a day, operating around the clock. We estimate that in 1973 the scheduled airlines will carry about 1.4 billion letters and more than 200 million packages.

To get these tasks done, the airlines employ about 300,000 men and women and count heavily on the work of scores of thousands of other employees whose jobs are dependent on scheduled airline operations.

I present these capsule statistics to indicate that air transportation is a vital and pervasive system, essential to the functioning and well-being of the U.S. economy through the safe, rapid, and reliable movement in a dynamic society of people and goods.

Let me turn now to what our fuel needs are. Obviously substantial quantities of petroleum fuel are necessary to operate this national air transport system. Transportation as a whole in the United States consumes about 25 percent of available energy and roughly 53 percent of the total domestic use of petroleum. This comes to 2.9 billion barrels of petroleum products whose use is broken down by transportation modes for civilian purposes as follows:

First, on highway, the automobile takes 55 percent of the transportation fuel, other highway uses amount to 29 percent, for a total of 84 percent highway.

The airlines take 9 percent, waterborne transportation 4 percent and the railroads about 3 percent.

The scheduled airlines consumed 242 billion barrels or 10.2 billion gallons in 1971, the last year for which full year precise data is currently available. This fuel cost the airlines $1.2 billion, the highest element of cost except for labor in the airline operations.

Since the commercial airline fleet has converted almost entirely to jet-powered aircraft the fuel we use is jet fuel, a middle distillate akin to kerosene.

It is important to note that the airlines and indeed almost all of the transportation industry is dependent on petroleum—there is no

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alternative energy source. This point needs to be kept in mind as longer range plans for dealing with the energy problem are considered, and new action programs are implemented. A greater use of coal energy, for example, on the part of the electric utility industry could free up great quantities of petroleum energy for use by transportation.

Those are our needs.

Let me turn now to availability of fuel. The airlines have not as yet encountered any widespread fuel supply problems which we have not been able to handle by prompt management action, but we have had some serious warning signals and we must anticipate more trouble ahead.

In the early part of this year, several airlines were faced with local shortages, particularly in the eastern part of the United States. These problems were met principally by ferrying fuel from one location to another, at an additional cost to the airlines and some inconvenience to our passengers. We were determined to maintain service for our passengers and shippers and we were able to avoid having to cancel flights.

Our best information is that we can expect similar problems throughout the summer and later. We are told by Government and oil industry officials that our supply situation will be tight, but that we should expect local or spot shortages rather than any general runout. I see no reason for believing that the problem will not continue for a period of time and can only hope that that will not become worse.

Accordingly, it is most important, as I have said, that responsible Government officials develop contingency plans for dealing with the fuel problems should the need arise. We must have assurance that our vital needs will be met until the longer run solutions to the energy problems have taken effect.

Thus, our immediate outlook is for spot or occasional shortages. For example, a refinery shutdown resulting from equipment malfunction could cause a tempory problem of some magnitude. The Government and the airlines must be prepared to meet these problems promptly.

I suggest that several steps would be helpful, including the following:

(1) An early warning system, fuel advisories, if you will, that will let us know when and where trouble can be expected. This may give us time to take remedial action in something less than a crisis atmosphere.

(2) Release of in-bond aviation fuel for domestic consumption to meet spot shortages. Such fuel is located at 27 airports and is normally available for use in international flights. The Air Transport Association has asked the responsible Government officials if this fuel could be released from bond to meet spot domestic needs hopefully on a basis of predelegated authority, so that decision time can be reduced to a minimum. We are pleased that our suggestion is being reviewed.

(3) Worldwide availability of distillate fuels, including jet fuels, is we are told, somewhat more favorable than the availability of

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gasoline. We understand that there may even be some surplus of distillate fuels as a result of European refinery production. If so, we hope that under the new policies affecting imports of petroleum, the oil companies will be able to take advantage of the situation to assure that our needs are going to be met.

While I have, of course, concentrated on fuel for aircraft operations, it is important to note that the air transport industry also requires large quantities of gasoline for ground vehicles that service flight operations and these needs must also be taken into account in the contingency plans the Government is developing.

Let me now turn briefly, Mr. Chairman, to conservation measures.

For a long time the airlines have practiced fuel conservation measures, not only to save fuel but also to reduce costs. For example, they make wide use of simulators for the training of aircrews that would otherwise require actual flights. The fuel savings resulting from this practice amounted to 30 million gallons in 1971.

Fuel sayings resulting from operational practices are also being achieved. I am pleased to report that the Air Transport Association's operations committee, consisting of top executives from the operations side of the industry, are studying ways to increase present fuel-saving measures and to identify new fuel-saving opportunities. These measures include shutting off one or more engines during taxiing operations, reduction of idling time on the ground and reduction of cruise speed with consequent fuel savings. Of course, measures of this kind must always be evaluated in terms of safety and other operational requirements.

The CAB, recognizing the need to conserve fuel, has recently authorized discussions that would permit the continuance of capacity reductions on certain transcontinental flights. The CAB chairman has called attention to the possibility of additional fuel savings that would result from capacity reductions on routes other than the transcontinental routes in question. The airlines have not as yet had time to respond to these suggestions from the CAB. Some airlines view capacity reductions of this type with concern because they feel such reductions could affect the overall operational and competitive framework of our air transportation system.

This is a challenging problem for which there are no easy answers, but I am certain that all views will be given consideration in any actions the CAB may consider taking as related to fuel conservation.

I should also note that the CAB has asked the airlines to propose plans for meeting any fuel shortages that may develop at any of the 22 major airport hub city airports throughout the United States.

Let me turn now to fuel costs. I have already indicated that fuel costs represent the largest category of costs except for labor in airline operations. Accordingly, we are hopeful that jet fuel costs will not rise significantly.

To give you some sense of the order of magnitude here, a 1 cent-a gallon increase in our fuel would cost the industry as a whole $100 million a year.

One cent is $100 million. To put $100 million in context, the entire industry in 1972 made a profit of only $225 million. So, we are talking about a very sizable cost category here that would be very sensitive to cost increases.

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Some recently concluded fuel contracts reported by several airlines give us some basis for concern and apprehension.

Some of these cost increases undoubtedly reflect the higher costs that the oil companies must pay for crude. We are hopeful, however, that the oil companies will make every reasonable effort not only to assure availability of jet fuel but also to hold the line on price. In this connection, I was pleased to see in a recent news article that one of the major oil companies had reduced the price of one of its products, heavy fuel oil. While it may be unrealistic to expect that the price of jet fuel will be reduced, we nevertheless hope that it will not increase significantly. As a regulated industry, it is not possible for the airlines to obtain immediate relief for cost increases. Moreover, a significant cost increase ultimately reflected in higher air fares would have a widespread effect on individual passengers and shippers and overall living cost, in view of the pervasive nature of our national air transportation system.

Having said this, I want also to point out that the petroleum industry has always recognized the vital role of the airlines and has done much through research and development, as well as through supply and distribution, to help the airlines to do the job. We have had our differences, to be sure, but these have been resolved with rare exception, in an equitable manner.

I, for one, hope this relationship will continue.

Let me conclude, Mr. Chairman, by expressing once again my appreciation for the interest this committee is showing in the fuel problem and by quickly summarizing my remarks.

1. We expect spot fuel shortages in the coming months and greater difficulties as time goes by until long run steps to remedy the situation have had time to take effect. Accordingly, we believe the Government should develop contingency plans to assure that transportation and other vital needs will be met. In addition, arrangements should be made to deal promptly with spot shortages, including consideration of the several suggestions I have made today.

Secondly, transportation for the foreseeable future must depend upon petroleum as its energy source. If industries that have available alternative energy sources can use less petroleum, the transportation sector will be benefited.

Thirdly, transportation, like all segments of the economy must seek and practice opportunities to conserve scarce fuel. The airlines are already doing this and hope to extend the fuel savings they are already making.

Fourth, the energy problem confronts all of us—the Congress, the executive agencies, industry and the American public. All of us must do our part to insure that our needs are met with the least possible dislocation to economic activity, environmental objectives, and our balance of payments needs. The scheduled airline industry is prepared to assist the effort until such time as our energy problems are surmounted.

This completes my statement, Mr. Chairman.

Like the former witness, I will be pleased to answer questions later on.

[The statement of Mr. Ignatius follows:]

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Statement of Paul R. Ignatius
President, Air Transport Association of America
before the Senate Committee on Banking, Housing
and Urban Affairs
May 7, 1973

My name is Paul R. Ignatius. I am President of the Air Transport Association, which represents virtually all of the scheduled, certificated airlines of the United States.

I appreciate this opportunity to appear before you to present our preliminary views on the fuel problem, how it affects the airlines, and what additional steps the airlines and the government might take to meet this challenge. In preparing this testimony, I have been guided by the letter from the Committee dated April 25, 1973 which outlined the questions the Committee intended to pursue in this hearing.

Before proceeding further, I want to say that I believe that the recently enacted amendment to the Economic Stabilization Act which authorizes the establishment of a priorities and allocations program is an important achievement. I am mindful, of course, that this much needed amendment was enacted at the instigation of this Committee.

Hopefully, it will not be necessary to put into effect a priorities and allocations program for fuel. But certainly it is wise and prudent to have made provisions for such a program should circumstances require this type of control. I was pleased to learn that development of such a plan already has begun, and I hope that this contingency planning is pursued on a priority basis.

I am certain that these hearings which are being held by the Senate Committee on Banking, Housing and Urban Affairs will contribute much

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useful information that will help to insure that the priorities and allocations contingency plan is equitable and effective.

This hearing comes at a most opportune time. We are grateful that the Committee has moved promptly to assure that vital functions, including transportation, will have adequate fuel supplies in the event that critical supply problems develop.

Let me turn now specifically to air transportation and how the fuel situation looks to us in the airline industry.

SCOPE OF AIR TRANSPORTATION

The commercial airlines are the predominant common-carrier of people in intercity service. About 75 per cent of the passenger miles of domestic intercity travel aboard common carriers--planes, buses and trains-- are by air. In overseas travel, airlines account for more than 90 per cent.

More than 200 million passengers will be carried by the scheduled airlines of the United States in 1973, and that service will grow significantly in the years immediately ahead.

In their landings and takeoffs at more than 525 airports serving citizens in thousands of cities, large and small, the airlines are providing scheduled passenger, freight, and mail service through some 13,800 flights a day, operating around the clock. We estimate that in 1973 the scheduled airlines will carry about 1.4 billion letters and more than 200 million packages.

To get these tasks done, the airlines employ about 300,000 men and women and count heavily on the work of scores of thousands of other employees whose jobs are dependent on scheduled airline operations.

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I present these capsule statistics to indicate that air transportation is a vital and pervasive system, essential to the functioning and well being of the United States economy through the safe, rapid and reliable movement in a dynamic society of people and goods.

FUEL NEEDS

Substantial quantities of petroleum fuel are necessary to operate this national air transport system. Transportation as a whole in the United States consumes about 25 per cent of available energy, and roughly 53 per cent of the total domestic use of petroleum. This comes to 2.9 billion barrels of petroleum products, whose use is broken down by transportation modes for civilian purposes as follows:

Highway		
Automobile	55%	
Other	29%	
Total Highway		84%
Airlines		9%
Water		4%
Railroad		3%

The scheduled airlines consumed 242 million barrels (10.2 billion gallons) in 1971, the last year for which full year precise data is currently available. This fuel cost the airlines $1.2 billion, the highest element of cost except for labor in the airline operations.

Since the commercial airline fleet has converted almost entirely to jet powered aircraft the fuel we use is jet fuel, a middle distillate akin to kerosene.

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It is important to note that the airlines and indeed almost all of the transportation industry is dependent on petroleum -- there is no alternative energy source. This point needs to be kept in mind as longer range plans for dealing with the energy problem are considered, and new action programs are implemented. A greater use of coal energy, for example, on the part of the electric utility industry could free up great quantities of petroleum energy for use by transportation.

FUEL AVAILABILITY

The airlines have not as yet encountered any widespread fuel supply problems which we have not been able to handle by prompt management action, but we have had some serious warning signals and we must anticipate more trouble ahead.

In the early part of this year, several airlines were faced with local shortages, particularly in the eastern part of the United States. These problems were met principally by ferrying fuel from one location to another, at an additional cost to the airlines and some inconvenience to our passengers. We were determined to maintain service for our passengers and shippers, and we were able to avoid having to cancel flights.

Our best information is that we can expect similar problems throughout the summer and later. We are told by government and oil industry officials that our supply situation will be tight, but that we should expect local or spot shortages rather than any general run-out. I see no reason for believing that the problem will not continue for a period of time and can only hope that it will not become worse.

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Accordingly, it is most important, as I have said, that responsible government officials develop contingency plans for dealing with the fuel problem should the need arise. We must have assurance that our vital needs will be met until the longer-run solutions to the energy problem have taken effect.

Thus, our immediate outlook is for spot or occasional shortages. For example, a refinery shut-down resulting from equipment malfunction could cause a temporary problem of some magnitude. The government and the airlines must be prepared to meet these problems promptly.

I suggest that several steps would be helpful, including the following:

(1) An early warning system -- fuel advisories, if you will -- that will let us know when and where trouble can be expected. This may give us time to take remedial action in something less than a crisis atmosphere.

(2) Release of in-bond aviation fuel for domestic consumption to meet spot shortages. Such fuel is located at 27 airports and is normally available for use in international flights. The Air Transport Association has asked the responsible government officials if this fuel could be released from bond to meet spot domestic needs, hopefully on a basis of pre-delegated authority, so that decision time can be reduced to a minimum. We are pleased that our suggestion is being reviewed.

(3) The world-wide availability of distillate fuels, including jet fuels, is, we are told, somewhat more favorable than the availability of gasoline. We understand that there may even be some surplus of distillate fuels as a result of European refinery production. If so, we hope that under the new policies affecting imports of petroleum, the oil companies will be able to take advantage of the situation to assure that our needs will be met.

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While I have, of course, concentrated on fuel for aircraft operations, it is important to note that the air transport industry also requires large quantities of gasoline for ground vehicles that service flight operations. These needs must also be taken into account in the contingency plans the government is developing.

CONSERVATION MEASURES

For a long time the airlines have practiced fuel conservation measures, not only to save fuel, but also to reduce costs. For example, they make wide use of simulators for the training of air crews that would otherwise require actual flights. The fuel savings resulting from this practice amounted to 30 million gallons in 1971.

Fuel savings resulting from operational practices are also being achieved. I am pleased to report that the Air Transport Association's Operations Committee, consisting of top executives from the operations side of the industry, are studying ways to increase present fuel-saving measures and to identify new fuel-saving opportunities. These measures include shutting off one or more engines during taxiing operations, reduction of idling time on the ground, and reduction of cruise speed with consequent fuel savings. Of course, measures of this kind must always be evaluated in terms of safety and other operational requirements.

The Civil Aeronautics Board, recognizing the need to conserve fuel, has recently authorized discussions that would permit the continuance of capacity reductions on certain transcontinental flights. The CAB chairman has called attention to the possibility of additional fuel savings that would result from capacity reductions on routes other than the transcontinental routes in question. The airlines have not as yet had time to respond

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to these suggestions from the CAB. Some airlines view capacity reductions of this type with concern because they feel such reductions could affect the overall operational and competitive framework of our air transportation system. This is a challenging problem for which there are no easy answers, but I am certain that all views will be given careful consideration in any actions the Civil Aeronautics Board may consider taking as related to fuel conservation.

I should also note that the Civil Aeronautics Board has asked the airlines to propose plans for meeting any fuel shortages that may develop at any of the 22 major airport hub city airports throughout the United States.

FUEL COSTS

I have already indicated that fuel costs represent the largest category of costs except for labor in airline operations. Accordingly, we are hopeful that jet fuel costs will not rise significantly. Some recently concluded fuel contracts reported by several airlines give us some basis for concern and apprehension.

Some of these cost increases undoubtedly reflect the higher costs that the oil companies must pay for crude. We are hopeful, however, that the oil companies will make every reasonable effort not only to assure availability of jet fuel but also to hold the line on price. In this connection, I was pleased to see in a recent news article that one of the major oil companies had reduced the price of one of its products, heavy fuel oil. While it may be unrealistic to expect that the price of jet fuel will be reduced, we nevertheless hope that it will not increase significantly. As a regulated industry, it is not possible for the airlines to obtain immediate relief for cost increases. More-

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over, a significant cost increase ultimately reflected in higher air fares would have a widespread effect on individual passengers and shippers and overall living costs, in view of the pervasive nature of our national air transportation system.

Having said this, I want also to point out that the petroleum industry has always recognized the vital role of the airlines and has done much through research and development, as well as through supply and distribution, to help the airlines to do the job. We have had our differences, to be sure, but these have been resolved, with rare exception, in an equitable manner. I look forward to a continuation of this relationship, and to working together, with assistance from the government, as necessary, to assure adequate fuel supplies at fair and reasonable prices.

CONCLUSION

Let me conclude, Mr. Chairman, by expressing once again my appreciation for the interst this Committee is showing in the fuel problem and by quickly summarizing my remarks.

First, we expect spot fuel shortages in the coming months and greater difficulties as time goes by until long run steps to remedy the situation have had time to take effect. Accordingly, we believe the government should develop contingency plans to assure that transportation and other vital needs will be met. In addition, arrangements should be made to deal promptly with spot shortages, including consideration of the several suggestions I have made today.

Secondly, transportation for the foreseeable future must depend upon petroleum as its energy source. If industries that have available alternative energy sources can use less petroleum, the transportation sector will be

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benefitted.

Thirdly, transportation, like all segments of the economy must seek and practice opportunities to conserve scarce fuel. The airlines are already doing this and hope to extend the fuel savings they are already making.

Fourth, fuel is a major element in our cost structure and we are anxious to avoid significant cost increases.

Finally, the energy problem confronts all of us -- the Congress, the Executive agencies, industry, and the American public. All of us must do our part to insure that our needs are met with the least possible dislocation to economic activity, environmental objectives, and our balance of payments needs. The scheduled airline industry is prepared to assist the effort until such time as our energy problems are surmounted.

I will now be pleased to address any questions that you may wish to direct to my attention.

* * * * * * * *

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UNITED STATES AIRLINE INDUSTRY

FORECAST OF TURBINE FUEL DEMAND

1972 - 1981

Prepared By The

Fuels Committee

of the

Air Transport Association of America

May 1972

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FOREWORD

The Air Transport Association of America member airlines have made a major effort to assemble herein a consolidated record of turbine fuel used in 1971 and forecast for consumption through 1981. This record represents scheduled commercial aircraft operations in the United States by domestic and foreign airlines. Although 100% coverage was not possible, the data that follows adequately represents projected requirements by major airports, Petroleum Administration (PAD) Districts and by the individual fifty states.

This publication is the fifth in a series of annual forecasts. It is prepared for the information of suppliers, transporters, service companies and other agencies concerned with planning for airline turbine fuel requirements. Because of the large volume of fuel used, maximum efficiency and economy in transportation and servicing is required. Fuel equipment manufacturers and servicing companies in particular may find this publication useful for planning the production of equipment and service programs.

Bonded fuel is identified separately and bondable fuel is also shown to reflect that portion of the total demand eligible for withdrawal under U. S. Customs bonded control for use in international operations. This information will assist suppliers in identifying those airports where availability of bonded fuel is essential.

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SUMMARY

This forecast projects turbine fuel consumption at all airports in the United States having an annual volume of 500,000 gallons or more, as projected by the certificated air carriers participating.

The actual or projected fuel consumption of non-participating air carriers or other users of aviation fuel is not included in this forecast.

The top airports in terms of total turbine fuel reported to be consumed in 1971 are listed below in descending order. Data expressed is in thousand gallons:

	Domestic	Bonded	Total
JFK (Kennedy-New York)	396,575	551,018	947,583
LAX (Los Angeles)	758,238	131,267	889,505
ORD (Chicago O'Hare)	729,102	94,217	823,319
SFO (San Francisco)	489,832	104,662	594,494
MIA (Miami International)	321,753	109,515	431,268
HNL (Honolulu)	186,391	208,855	395,246
ATL (Atlanta)	330,405	7,216	337,621
DAL (Dallas Love Field)	303,876	18,776	322,652
LGA (La Guardia-New York)	262,325	9,203	271,528
BOS (Boston Logan)	197,888	71,752	269,640
SEA (Seattle)	195,500	68,254	263,754
DEN (Denver)	226,505	-	226,505
PHL (Philadelphia)	139,473	32,920	172,393
EWR (Newark)	147,543	18,367	165,910
STL (St. Louis)	165,409	-	165,409
IAH (Houston International)	142,991	12,210	155,201
DTW (Detroit)	145,794	8,478	154,272
MSP (Minneapolis-St. Paul)	143,160	8,759	151,919
DCA (Washington, D.C.-National)	139,282	-	139,282
PIT (Pittsburg)	104,155	8,918	113,073
CLE (Cleveland)	109,362	-	109,362

These projections made in the first quarter 1972 show the current consumption downtrend as compared to previous years' estimates. Also, these individual airport forecasts are not readily available elsewhere and by being updated annually this report offers essential data for longrange planning to further assure delivery of adequate volume at minimum cost.

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PARTICIPATING CARRIERS

Listed below are the ATA Air Carriers and other cooperating Air Carriers who have supplied the forecasts used to prepare this consolidated report.

Air Canada
Air France
Air West
Allegheny Airlines, Inc.
Alaska Airlines, Inc.
Aloha Airlines, Inc.
American Airlines, Inc.
British Overseas Airways Corp.
Braniff International
Canadian Pacific Airlines Ltd.
Continental Air Lines, Inc.
Delta Air Lines, Inc.
Eastern Airlines, Inc.
El Al Israel Airlines Ltd.
Flying Tiger Line, Inc.
Frontier Airlines, Inc.
Hawaiian Airlines
Japan Air Lines Co. Ltd.
KLM - Royal Dutch Airlines
Lufthansa - German Airlines
National Airlines, Inc.
Northeast Airlines, Inc.
North Central Airlines
Northwest Airlines, Inc.
Ozark Air Lines, Inc.
Pacific Western Airlines
Pan American World Airways, Inc.
Pacific Southwest Airlines
Piedmont Airlines, Inc.
Qantas Airways Ltd.
Reeve Aleutian Airways, Inc.
Sabena Belgian World Air Lines
Scandinavian Airline System
Southern Airways, Inc.
Texas International Airlines, Inc.
Trans World Airlines, Inc.
United Air Lines, Inc.
Wein Consolidated Airlines
Western Air Lines, Inc.

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EXPLANATIONS

Data Source - Air Transport Association Fuel Committee questionnaire completed by the Domestic/International and Foreign/International Airlines collected and tabulated for the Committee by Aeronautical Radio, Inc.

Methodology - Long range schedule plans determine the fleet sizes and their make up. The planned utilization of aircraft to meet these schedules, together with individual aircraft type consumption rates, produce the projections which are consolidated in the attached tables and charts.

DEFINITIONS

Domestic Turbine Fuel - Turbine Fuel produced in refineries located within the borders of the fifty states.

Bonded Turbine Fuel - Fuel produced outside the fifty states and held "in bond". It is used only on international flights in accordance with U.S. Treasury Department Regulations and is not subject to restrictions of the U.S. Oil Import Program.

Bondable Turbine Fuel - The total amount of fuel used on international flights, all of which is now purchased or when available could be purchased from "in bond" supplies.

PAD Districts - Petroleum Administration for Defense districts, as defined by the United States Department of Interior, Bureau of Mines.

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AIR TRANSPORT ASSOCIATION OF AMERICA
1972 U. S. AIRLINE INDUSTRY TURBINE FUEL FORECAST

TABLE I

(Data is expressed in thousand gallons)

PAD DISTRICT	1971 ACTUAL CONSUMPTION			1972 FORECAST			1973 FORECAST	
	DOMESTIC	BONDABLE	BONDED	DOMESTIC	BONDABLE	BONDED	DOMESTIC	BONDABLE
TOTAL PAD DISTRICT I	2,676,854	899,341	864,329	2,862,143	1,000,444	960,622	2,986,887	1,017,544
TOTAL PAD DISTRICT II	1,887,138	126,090	111,454	2,064,956	143,914	115,979	2,174,144	121,406
TOTAL PAD DISTRICT III	716,093	57,702	49,443	744,347	62,848	54,422	770,950	64,830
TOTAL PAD DISTRICT IV	299,095	10,773		321,690	11,037	2,600	340,583	11,940
TOTAL PAD DISTRICT V	2,071,136	654,168	621,087	2,256,448	696,658	671,944	2,377,679	633,917
TOTAL FOR THE U.S.	7,650,316	1,748,074	1,646,313	8,249,584	1,914,901	1,805,567	8,650,243	1,849,637

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AIR TRANSPORT ASSOCIATION OF AMERICA
1972 U. S. AIRLINE INDUSTRY TURBINE FUEL FORECAST

TABLE I

(Data is expressed in thousand gallons)

PAD DISTRICT	1974 FORECAST		1975 FORECAST		1976 FORECAST		1981 FORECAST	
	DOMESTIC	BONDABLE	DOMESTIC	BONDABLE	DOMESTIC	BONDABLE	DOMESTIC	BONDABLE
TOTAL PAD DISTRICT I	3,130,976	1,070,999	3,300,749	1,139,486	3,455,737	1,212,346	4,201,440	1,606,996
TOTAL PAD DISTRICT II	2,261,997	126,912	2,405,100	142,010	2,533,343	133,250	3,266,010	179,963
TOTAL PAD DISTRICT III	804,924	71,283	870,395	72,414	941,970	78,583	1,196,542	100,624
TOTAL PAD DISTRICT IV	355,448	12,070	372,233	12,532	384,519	13,051	462,339	14,162
TOTAL PAD DISTRICT V	2,488,130	676,263	2,624,373	729,331	2,769,914	819,480	3,374,726	715,808
TOTAL FOR THE U.S.	9,041,475	1,957,527	9,572,850	2,095,773	10,085,483	2,256,710	12,501,057	2,617,553

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AIR TRANSPORT ASSOCIATION OF AMERICA
1972 U. S. AIRLINE INDUSTRY TURBINE FUEL FORECAST

TABLE I

(Data is expressed in thousand gallons)

PAD DISTRICT	1971 ACTUAL CONSUMPTION			1972 FORECAST			1973 FORECAST	
	DOMESTIC	BONDABLE	BONDED	DOMESTIC	BONDABLE	BONDED	DOMESTIC	BONDABLE
TOTAL FOR THE U.S.	7,650,316	1,748,074	1,646,313	8,249,584	1,914,901	1,805,567	8,650,243	1,849,637
TOTAL FOREIGN FLAG	9,851	442,570	424,749	12,069	515,032	495,032	15,543	526,385

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AIR TRANSPORT ASSOCIATION OF AMERICA

1972 U. S. AIRLINE INDUSTRY TURBINE FUEL FORECAST

TABLE I

(Data is expressed in thousand gallons)

PAD DISTRICT	1974 FORECAST		1975 FORECAST		1976 FORECAST		1981 FORECAST	
	DOMESTIC	BONDABLE	DOMESTIC	BONDABLE	DOMESTIC	BONDABLE	DOMESTIC	BONDABLE
TOTAL FOR THE U.S.	9,041,475	1,957,527	9,572,850	2,095,773	10,085,483	2,256,710	12,501,057	2,617,553
TOTAL FOREIGN FLAG	20,988	561,307		638,338		738,112		607,191

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AIR TRANSPORT ASSOCIATION OF AMERICA
1972 U. S. AIRLINE INDUSTRY TURBINE FUEL FORECAST

TABLE II

PAD DISTRICT I

(Data is expressed in thousand gallons)

AIRPORT	STATE	CODE	1971 CONSUMPTION			1972 FORECAST			1973 FORECAST	
			DOMESTIC	BONDABLE	BONDED	DOMESTIC	BONDABLE	BONDED	DOMESTIC	BONDABLE
ALLENTOWN	PA	ABE	1,149			4,208			1,293	
AUGUSTA	GA	AGS	2,942			2,965			3,160	
ALBANY	NY	ALB	10,429			11,000			11,400	
ATLANTA	GA	ATL	330,450	7,216	7,216	340,900	12,000	12,000	356,502	14,000
WILKES-BARRE	PA	AVP	652			736			736	
BALTIMORE	MD	BAL	81,883	16,443	16,443	77,278	17,993	17,993	80,515	18,607
HARTFORD	CT	BDL	27,601	579	579	29,708	670	670	30,870	670
BINGHAMPTON	NY	BGM	888			20			20	
BOSTON	MA	BOS	197,888	72,152	71,752	208,351	87,266	82,266	218,988	76,829
BUFFALO	NY	BUF	28,449	3,720	3,320	37,066	4,282	3,400	37,328	4,426
COLUMBIA	SC	CAE	6,155			6,246			6,617	
CHARLESTON	SC	CHS	6,789			7,416			8,177	
CHARLOTTE	NC	CLT	36,781			39,452			43,119	
CHARLESTON	WV	CRW	3,573			3,869			4,119	
COLUMBUS	GA	CSG	3,631			3,895			4,230	
DAYTONA BCH	FL	DAB	1,374			1,444			1,546	
DC NATL ARPT	DC	DCA	139,282	1,000		145,877	2,800		154,174	4,244
CORNING	NY	ELM	1,206			244			2,440	
ERIE	PA	ERI	504			1,341			1,542	
NEW BERN	NC	EWN	598			600			1,625	
NEWARK	NJ	EWR	147,543	20,600	18,367	160,257	22,725	19,385	166,345	23,915
FAYETTEVILLE	NC	FAY	1,838			2,000			2,250	
FT LAUDERDLE	FL	FLL	39,691	2,692	2,692	40,915	2,255	2,255	42,122	2,300
GREENSBORO	NC	GSO	8,546			9,258			9,702	
SPTNBG/GRNVL	SC	GSP	1,137			1,042			1,048	
DULLES INTER	VA	IAD	92,061	34,122	29,059	105,633	47,292	46,792	111,630	48,980
WILMINGTON	NC	ILM	4,360			4,400			4,500	
WINSTON-SALM	NC	INT	4,876			5,000			5,125	

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TABLE II

PAD DISTRICT I

AIR TRANSPORT ASSOCIATION OF AMERICA
1972 U. S. AIRLINE INDUSTRY TURBINE FUEL FORECAST

(Data is expressed in thousand gallons)

AIRPORT	STATE	CODE	1974 FORECAST		1975 FORECAST		1976 FORECAST	
			DOMESTIC	BONDABLE	DOMESTIC	BONDABLE	DOMESTIC	BONDABLE
ALLENTOWN	PA	ABE	4,780		4,830		4,930	
AUGUSTA	GA	AGS	3,419		3,769		4,046	
ALBANY	NY	ALB	11,920		11,920		12,420	
ATLANTA	GA	ATL	375,783	14,500	402,924	15,000	426,353	16,000
WILKES-BARRE	PA	AVP	736		786		786	
BALTIMORE	MD	BAL	84,260	19,220	92,120	19,838	95,491	20,555
HARTFORD	CT	BDL	31,760	770	35,271	970	38,880	1,020
BINGHAMPTON	NY	BGM	20		20		20	
BOSTON	MA	BOS	230,559	78,639	243,192	95,987	254,514	102,683
BUFFALO	NY	BUF	38,944	4,471	39,544	4,671	41,096	4,820
COLUMBIA	SC	CAE	6,949		7,499		7,880	
CHARLESTON	SC	CHS	8,887		9,643		10,319	
CHARLOTTE	NC	CLT	44,989		47,914		51,708	
CHARLESTON	WV	CRW	4,129		4,139		4,144	
COLUMBUS	GA	CSG	4,621		5,102		5,574	
DAYTONA BCH	FL	DAB	1,548		1,650		1,753	
DC NATL ARPT	DC	DCA	159,336	4,644	165,430	4,644	172,357	4,644
CORNING	NY	ELM	2,440		2,440		2,440	
ERIE	PA	ERI	1,542		1,619		1,619	
NEW BERN	NC	EWN	1,625		1,625		1,625	
NEWARK	NJ	EWR	173,411	27,250	185,628	28,460	194,074	29,290
FAYETTEVILLE	NC	FAY	2,500		2,500		2,500	
FT LAUDERDLE	FL	FLL	44,110	2,400	46,121	2,400	48,717	2,500
GREENSBORO	NC	GSO	10,088		10,610		10,915	
SPTNBG/GRNVL	SC	GSP	1,164		1,265		1,266	
DULLES INTER	VA	IAD	113,075	51,163	119,854	53,793	125,353	62,169
WILMINGTON	NC	ILM	4,750		4,750		4,750	
WINSTON-SALM	NC	INT	5,250		5,250		5,250	

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AIR TRANSPORT ASSOCIATION OF AMERICA
1972 U. S. AIRLINE INDUSTRY TURBINE FUEL FORECAST

TABLE II

PAD DISTRICT I

(Date is expressed in thousand gallons)

AIRPORT	STATE	CODE	1971 CONSUMPTION			1972 FORECAST			1973 FORECAST	
			DOMESTIC	BONDABLE	BONDED	DOMESTIC	BONDABLE	BONDED	DOMESTIC	BONDABLE
KINSTON	NC	ISO	976			1,000			1,125	
JACKSONVILLE	FL	JAX	31,938			39,094			40,727	
JFK INTL APT	NY	JFK	395,575	568,870	551,018	462,787	626,677	606,677	481,124	644,326
NY LAGUARDIA	NY	LGA	262,325	16,503	9,203	209,529	15,800	11,000	216,678	16,500
LYNCHBURG	VA	LYH	661			675			700	
MACON	GA	MCN	1,076			1,097			1,153	
ORLANDO/MCO	FL	MCO	20,794			21,638			22,509	
MIDDLETON	PA	MDT	1,233			1,545			1,560	
MIAMI	FL	MIA	321,753	109,515	109,515	351,379	115,333	115,333	362,179	116,726
MELBOURNE	FL	MLB	2,330			2,200			2,500	
NORFOLK	VA	ORF	20,289			26,208			27,318	
ORLANDO	FL	ORL	4,843			6,693			6,900	
PALM BEACH	FL	PBI	8,995			9,100			9,465	
PANAMA CITY	FL	PFN	668			737			818	
PHIL/CAMDEN	PA	PHL	139,473	32,920	32,920	152,616	31,941	30,241	160,462	32,250
PITTSBURGH	PA	PIT	104,155	9,318	8,918	124,739	8,800	8,000	129,597	8,936
PENSACOLA	FL	PNS	7,674			8,500			9,700	
PROVIDENCE	RI	PVD	1,735			4,204			4,580	
PORTLAND	ME	PWM	523			540			555	
DURHAM	NC	RDU	13,729			14,142			14,413	
RICHMOND	VA	RIC	4,324			5,500			5,800	
ROANOKE	VA	ROA	10,028			10,040			10,300	
ROCHESTER	NY	ROC	13,948			17,234			17,862	
SAVANNAH	GA	SAV	3,235			3,296			3,478	
SARASOTA	FL	SRQ	2,705			2,700			3,200	
SYRACUSE	NY	SYR	18,207			19,541			21,050	
TALLAHASSEE	FL	TLH	804			908			919	
TAMPA	FL	TPA	89,269	3,691	3,327	100,389	4,610	4,610	105,229	4,835

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TABLE II

PAD DISTRICT I

AIR TRANSPORT ASSOCIATION OF AMERICA
1972 U. S. AIRLINE INDUSTRY TURBINE FUEL FORECAST

(Data is expressed in thousand gallons)

AIRPORT	STATE	CODE	1974 FORECAST		1975 FORECAST		1976 FORECAST	
			DOMESTIC	BONDABLE	DOMESTIC	BONDABLE	DOMESTIC	BONDABLE
KINSTON	NC	ISO	1,250		1,250		1,250	
JACKSONVILLE	FL	JAX	42,469		44,575		46,543	
JFK INTL APT	NY	JFK	508,152	680,267	528,010	719,162	548,330	764,494
NY LAGUARDIA	NY	LGA	227,206	17,000	237,528	17,500	249,089	18,200
LYNCHBURG	VA	LYH	750		750		750	
MACON	GA	MCN	1,239		1,353		1,455	
ORLANDO/MCO	FL	MCO	24,046		25,728		27,157	
MIDDLETON	PA	MDT	1,571		1,585		1,600	
MIAMI	FL	MIA	377,850	121,257	394,002	126,652	411,467	132,139
MELBOURNE	FL	MLB	2,550		2,750		2,800	
NORFOLK	VA	ORF	28,378		28,968		30,478	
ORLANDO	FL	ORL	7,300		7,500		7,900	
PALM BEACH	FL	PBI	9,911		10,465		11,061	
PANAMA CITY	FL	PFN	903		1,006		1,106	
PHIL/CAMDEN	PA	PHL	169,185	35,188	181,196	35,929	188,727	37,772
PITTSBURGH	PA	PIT	135,371	9,150	144,010	9,150	151,622	10,450
PENSACOLA	FL	PNS	10,700		11,200		12,000	
PROVIDENCE	RI	PVD	4,700		4,830		4,870	
PORTLAND	ME	PWM	575		590		610	
DURHAM	NC	RDU	14,767		15,131		15,537	
RICHMOND	VA	RIC	5,950		6,150		6,250	
ROANOKE	VA	ROA	10,300		10,300		10,300	
ROCHESTER	NY	ROC	18,411		19,297		19,997	
SAVANNAH	GA	SAV	3,749		4,137		4,463	
SARASOTA	FL	SRQ	3,400		3,900		4,000	
SYRACUSE	NY	SYR	21,543		21,893		23,060	
TALLAHASSEE	FL	TLH	1,031		1,044		1,058	
TAMPA	FL	TPA	110,601	5,080	119,044	5,330	125,663	5,610

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TABLE II

PAD DISTRICT I

AIR TRANSPORT ASSOCIATION OF AMERICA
1972 U. S. AIRLINE INDUSTRY TURBINE FUEL FORECAST

(Data is expressed in thousand gallons)

AIRPORT	STATE	CODE	1971 CONSUMPTION			1972 FORECAST			1973 FORECAST	
			DOMESTIC	BONDABLE	BONDED	DOMESTIC	BONDABLE	BONDED	DOMESTIC	BONDABLE
UTICA	NY	UCA	1,871			2,080			2,392	
EGLIN AFB	FL	VPS	4,269			4,730			5,200	
OTHER IN PAD	I		4,173			6,181			6,271	
TOTAL IN PAD	I		2,675,854	899,341	854,329	2,862,143	1,000,444	960,622	2,986,887	1,017,544

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TABLE II

PAD DISTRICT I

AIR TRANSPORT ASSOCIATION OF AMERICA
1972 U. S. AIRLINE INDUSTRY TURBINE FUEL FORECAST

(Data is expressed in thousand gallons)

AIRPORT	STATE	CODE	1974 FORECAST		1975 FORECAST		1976 FORECAST	
			DOMESTIC	BONDABLE	DOMESTIC	BONDABLE	DOMESTIC	BONDABLE
UTICA	NY	UCA	2,392		2,392		2,392	
EGLIN AFB	FL	VPS	5,700		6,270		6,897	
OTHER IN PAD	I		6,431		6,480		6,525	
TOTAL IN PAD	I		3,130,976	1,070,999	3,300,749	1,139,486	3,455,737	1,212,346

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AIR TRANSPORT ASSOCIATION OF AMERICA
1972 U. S. AIRLINE INDUSTRY TURBINE FUEL FORECAST

TABLE II

(Date is expressed in thousand gallons)

PAD DISTRICT II

AIRPORT	STATE	CODE	1971 CONSUMPTION			1972 FORECAST			1973 FORECAST	
			DOMESTIC	BONDABLE	BONDED	DOMESTIC	BONDABLE	BONDED	DOMESTIC	BONDABLE
WATERLOO A/P	IA	ALO	879			879			879	
BISMARCK	ND	BIS	1,435			1,435			1,507	
NASHVILLE	TN	BNA	21,878			23,402			23,676	700
AKRON/CANTON	OH	CAK	1,597			2,155			2,225	
CHATTANOOGA	TN	CHA	2,098			2,002			2,137	
CEDAR RAPIDS	IA	CID	721			1,341			1,371	
CLEVELAND	OH	CLE	109,362	3,185		134,826	3,535		141,523	1,580
COLUMBUS	OH	CMH	29,122			29,462			31,154	
CINCINNATI	KY	CVG	59,298			63,639			67,154	
DAYTON	OH	DAY	23,775			25,832			27,218	
DULUTH	MN	DLH	973			900			945	
DES MOINES	IA	DSM	8,093			8,753			8,543	
DETROIT, MET	MI	DTW	145,794	8,485	8,478	171,466	13,294	13,294	184,368	14,750
EVANSVILLE	IN	EVV	2,169			2,195			2,308	
FARGO	ND	FAR	5,125			7,162			7,877	
SIOUX FALLS	SD	FSD	2,525			2,509			2,580	
FORT WAYNE	IN	FWA	1,420			1,105			1,134	
GRAND FORKS	ND	GFK	1,627			1,618			1,622	
GREEN BAY	WI	GRB	6,785			7,048			7,048	
GRAND RAPIDS	MI	GRR	1,083			1,067			1,117	
WICHITA	KS	ICT	15,335			16,646			18,001	
INDIANAPOLIS	IN	IND	37,559			41,638			45,480	
JOPLIN	MO	JLN	1,129			1,129			1,129	
LEXINGTON	KY	LEX	1,789			2,180			2,335	
LINCOLN	NB	LNK	1,518			1,670			1,746	
SAGINAW	MI	MBS	1,271			1,294			1,334	
MID CONT INT	MO	MCI	8,985			14,000			124,521	2,000
MIDWAY AIRPT	IL	MDW	24,474			23,456			24,386	
MEMPHIS	TN	MEM	62,123			65,295			69,949	900

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TABLE II

AIR TRANSPORT ASSOCIATION OF AMERICA
1972 U. S. AIRLINE INDUSTRY TURBINE FUEL FORECAST

PAD DISTRICT II

(Data is expressed in thousand gallons)

AIRPORT	STATE	CODE	1974 FORECAST		1975 FORECAST		1976 FORECAST	
			DOMESTIC	BONDABLE	DOMESTIC	BONDABLE	DOMESTIC	BONDABLE
WATERLOO A/P	IA	ALO	879		879		879	
BISMARCK	ND	BIS	1,597		1,709		1,845	
NASHVILLE	TN	BNA	25,918	700	31,362	700	32,134	700
AKRON/CANTON	OH	CAK	2,325		2,625		2,625	
CHATTANOOGA	TN	CHA	2,311		2,555		2,740	
CEDAR RAPIDS	IA	CID	1,371		1,371		1,371	
CLEVELAND	OH	CLE	147,976	1,658	161,773	1,738	170,287	1,823
COLUMBUS	OH	CMH	32,597		34,798		36,836	
CINCINNATI	KY	CVG	70,614		75,213		81,484	
DAYTON	OH	DAY	28,433		30,385		31,824	
DULUTH	MN	DLH	990		1,000		1,200	
DES MOINES	IA	DSM	8,523		8,503		8,973	
DETROIT, MET	MI	DTW	194,418	17,583	205,027	24,166	215,960	11,200
EVANSVILLE	IN	EVV	2,498		2,741		2,945	
FARGO	ND	FAR	8,664		9,529		10,480	
SIOUX FALLS	SD	FSD	2,580		2,611		2,644	
FORT WAYNE	IN	FWA	1,181		1,321		1,374	
GRAND FORKS	ND	GFK	1,642		1,648		1,654	
GREEN BAY	WI	GRB	7,100		7,200		7,300	
GRAND RAPIDS	MI	GRR	1,252		1,117		1,217	
WICHITA	KS	ICT	18,953		20,113		21,312	
INDIANAPOLIS	IN	IND	47,185	500	49,578	700	52,164	700
JOPLIN	MO	JLN	1,129		1,129		1,129	
LEXINGTON	KY	LEX	2,474		2,702		2,860	
LINCOLN	NB	LNK	1,791		1,846		1,914	
SAGINAW	MI	MBS	1,334		1,334		1,534	
MID CONT INT	MO	MCI	129,057	2,150	136,926	2,300	143,181	2,400
MIDWAY AIRPT	IL	MDW	25,421		27,682		29,066	
MEMPHIS	TN	MEM	74,732	900	80,047	900	86,648	900

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AIR TRANSPORT ASSOCIATION OF AMERICA
1972 U. S. AIRLINE INDUSTRY TURBINE FUEL FORECAST

TABLE II

(Data is expressed in thousand gallons)

PAD DISTRICT II

AIRPORT	STATE	CODE	1971 CONSUMPTION			1972 FORECAST			1973 FORECAST	
			DOMESTIC	BONDABLE	BONDED	DOMESTIC	BONDABLE	BONDED	DOMESTIC	BONDABLE
KANSAS CITY	MO	MKC	89,562	1,900		92,784	1,900			
MILWAUKEE	WI	MKE	45,389			48,845			51,053	
DAVENPORT	IA	MLI	1,975			1,975			1,975	
MINOT	ND	MOT	572			540			541	
MADISON	WI	MSN	3,570			4,230			4,507	
ST PAUL	MN	MSP	143,160	8,863	8,759	156,317	12,284	12,284	167,697	2,306
OKLAHOMA CTY	OK	OKC	16,123			17,881			19,084	
OMAHA	NB	OMA	19,819			19,279			19,959	
OHARE FIELD	IL	ORD	729,102	100,957	94,217	800,908	107,201	87,401	823,601	95,370
PEORIA A/P	IL	PIA	2,558			2,558			2,558	
PADUCAH	KY	PUK	811			811			811	
RAPID CITY	SD	RAP	2,134			2,215			2,306	
SOUTH BEND	IN	SBN	1,142			1,719			1,769	
LOUISVILLE	KY	SDF	27,883			30,792			34,672	
SALINA	KS	SLN	582			585			614	
ST LOUIS	MO	STL	165,409	2,700		171,081	5,700	3,000	180,945	3,200
SIOUX CITY	IA	SUX	3,500			3,512			3,512	
TOLEDO	OH	TOL	2,449			2,623			2,710	
TRI-CITIES	TN	TRI	1,543			1,700			1,900	
TULSA	OK	TUL	31,899			28,123			28,480	
TRANERSE CITY	MI	TVC	761			798			798	
KNOXVILLE	TN	TYS	11,674			13,770			13,504	600
YNGS/WRN/SHN	OH	YNG	556			575			575	
OTHER IN PAD	I		5,023			5,231			5,306	
TOTAL IN PAD	I		1,887,138	126,090	111,454	2,064,956	143,914	115,979	2,174,144	121,406

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TABLE II

PAD DISTRICT II

AIR TRANSPORT ASSOCIATION OF AMERICA
1972 U. S. AIRLINE INDUSTRY TURBINE FUEL FORECAST

(Data is expressed in thousand gallons)

AIRPORT	STATE	CODE	1974 FORECAST		1975 FORECAST		1976 FORECAST	
			DOMESTIC	BONDABLE	DOMESTIC	BONDABLE	DOMESTIC	BONDABLE
MILWAUKEE	WI	MKE	54,798		58,593		62,768	
DAVENPORT	IA	MLI	1,975		1,975		1,975	
MINOT	ND	MOT	543		552		565	
MADISON	WI	MSN	4,952		5,360		5,836	
ST PAUL	MN	MSP	177,731	2,284	192,333	2,309	206,758	2,309
OKLAHOMA CTY	OK	OKC	19,905		21,057		21,856	
OMAHA	NB	OMA	20,279		24,578		25,071	
OHARE FIELD	IL	ORD	844,148	97,137	888,682	104,997	932,766	106,918
PEORIA A/P	IL	PIA	2,558		2,558		2,558	
PADUCAH	KY	PUK	811		811		811	
RAPID CITY	SD	RAP	2,358		2,432		2,550	
SOUTH BEND	IN	SBN	1,769		1,969		1,969	
LOUISVILLE	KY	SDF	36,595		39,292		42,171	
SALINA	KS	SLN	651		697		750	
ST LOUIS	MO	STL	189,385	3,400	199,034	3,600	205,142	3,900
SIOUX CITY	IA	SUX	3,512		3,512		3,512	
TOLEDO	OH	TOL	2,860		3,010		3,310	
TRI-CITIES	TN	TRI	2,100		2,150		2,205	
TULSA	OK	TUL	29,316		29,922		32,228	1,800
TRANERSE CITY	MI	TVC	800		800		800	
KNOXVILLE	TN	TYS	13,923	600	14,500	600	15,488	600
YNGS/WRN/SHN	OH	YNG	575		765		765	
OTHER IN PAD	II		5,508		5,794		5,909	
TOTAL IN PAD	II		2,261,997	126,912	2,405,100	142,010	2,533,343	133,250

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AIR TRANSPORT ASSOCIATION OF AMERICA
1972 U. S. AIRLINE INDUSTRY TURBINE FUEL FORECAST

TABLE II

(Data is expressed in thousand gallons)

PAD DISTRICT III

AIRPORT	STATE	CODE	1971 CONSUMPTION			1972 FORECAST			1973 FORECAST	
			DOMESTIC	BONDABLE	BONDED	DOMESTIC	BONDABLE	BONDED	DOMESTIC	BONDABLE
ALBUQUERQUE	NM	ABQ	32,779			34,204			36,224	
AMARILLO	TX	AMA	5,161			4,835			4,848	
AUSTIN	TX	AUS	2,268			1,765			1,908	
BIRMINGHAM	AL	BHM	15,318			15,732			16,532	
BEAUMONT	TX	BPT	705			900			900	
BATON ROUGE	LA	BTR	1,610			1,641			1,733	
CORPS CHRSTI	TX	CRP	1,888			1,540			660	
DALLAS LV FD	TX	DAL	303,876	19,681	18,776	318,877	19,518	18,692	325,874	19,758
EL PASO	TX	ELP	26,202			23,717			23,655	
ALEXANDRIA	LA	ESF	809			819			839	
FARMINGTON	NM	FMN	1,038			1,040			1,092	
FORT SMITH	AR	FSM	2,005			1,960			2,036	
GULFPORT	MS	GPT	1,096			1,206			1,327	
FT WORTH	TX	GSW	2,040			2,000			2,000	
LEA CTY A/P	NM	HOB	550			550			600	
HARLINGEN	TX	HRL	600			600			650	
HUNTSVILLE	AL	HSV	5,329			6,060			6,800	
HOUSTON	TX	IAH	142,991	12,210	12,210	150,977	17,445	17,445	155,953	18,399
JACKSON	MS	JAN	8,010			8,227			8,916	
LUBBOCK	TX	LBB	2,684			2,854			2,947	
LAKE CHARLES	LA	LCH	570			580			580	
LITTLE ROCK	AR	LIT	5,650			5,503			6,198	
MIDLAND	TX	MAF	8,289			7,365			7,831	
EDINBURG	TX	MFE	2,017			2,350			2,700	
MONTGOMERY	AL	MGM	4,156			4,274			4,963	
MONROE	LA	MLU	823			880			954	
MOBILE	AL	MOB	1,388			1,420			1,475	
NEW ORLEANS	LA	MSY	90,387	16,537	16,537	96,508	16,685	16,685	100,362	17,410
SAN ANTONIO	TX	SAT	33,564	9,274	1,920	33,813	9,200	1,600	38,067	9,263

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TABLE II

PAD DISTRICT III

AIR TRANSPORT ASSOCIATION OF AMERICA
1972 U. S. AIRLINE INDUSTRY TURBINE FUEL FORECAST

(Data is expressed in thousand gallons)

AIRPORT	STATE	CODE	1974 FORECAST		1975 FORECAST		1976 FORECAST	
			DOMESTIC	BONDABLE	DOMESTIC	BONDABLE	DOMESTIC	BONDABLE
ALBUQUERQUE	NM	ABQ	38,763		40,668		42,540	
AMARILLO	TX	AMA	4,884		5,185		6,104	
AUSTIN	TX	AUS	2,287		2,299		2,501	
BIRMINGHAM	AL	BHM	18,041		19,023		20,364	
BEAUMONT	TX	BPT	800		850		900	
BATON ROUGE	LA	BTR	1,868		2,062		2,225	
CORPS CHRSTI	TX	CRP	710		750		750	
DALLAS LV FD	TX	DAL	334,433	19,862	363,636	20,662	399,807	21,324
EL PASO	TX	ELP	24,772	1,400	28,587	1,400	31,729	1,400
ALEXANDRIA	LA	ESF	920		1,023		1,074	
FARMINGTON	NM	FMN	1,158		1,239		1,340	
FORT SMITH	AR	FSM	2,157		2,307		2,490	
GULFPORT	MS	GPT	1,460		1,606		1,767	
FT WORTH	TX	GSW	2,000		2,000		2,000	
LEA CTY A/P	NM	HOB	600		625		650	
HARLINGEN	TX	HRL	650		730		730	
HUNTSVILLE	AL	HSV	7,425		9,448		9,993	
HOUSTON	TX	IAH	165,887	21,923	179,401	20,370	189,254	24,214
JACKSON	MS	JAN	9,672		10,671		11,526	
LUBBOCK	TX	LBB	3,321		3,425		4,572	
LAKE CHARLES	LA	LCH	500		500		580	
LITTLE ROCK	AR	LIT	6,774		7,184		8,325	
MIDLAND	TX	MAF	8,724		8,961		9,926	
EDINBURG	TX	MFE	2,700		3,000		3,500	
MONTGOMERY	AL	MGM	5,421		5,943		6,541	
MONROE	LA	MLU	1,042		1,148		1,254	
MOBILE	AL	MOB	1,536		1,700		1,773	
NEW ORLEANS	LA	MSY	106,710	18,878	114,250	20,356	120,745	21,387
SAN ANTONIO	TX	SAT	36,609	9,220	37,770	9,626	41,442	10,258

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TABLE II

PAD DISTRICT III

AIR TRANSPORT ASSOCIATION OF AMERICA
1972 U. S. AIRLINE INDUSTRY TURBINE FUEL FORECAST

(Data is expressed in thousand gallons)

AIRPORT	STATE	CODE	1971 CONSUMPTION			1972 FORECAST			1973 FORECAST	
			DOMESTIC	BONDABLE	BONDED	DOMESTIC	BONDABLE	BONDED	DOMESTIC	BONDABLE
SHREVEPORT	LA	SHV	10,093			10,044			10,173	
WICHITA FLLS	TX	SPS	508			457			459	
OTHER IN PAD	III		1,689			1,649			1,694	
TOTAL IN PAD	III		715,093	57,702	49,443	744,347	62,848	54,422	770,950	64,830

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TABLE II

AIR TRANSPORT ASSOCIATION OF AMERICA
1972 U. S. AIRLINE INDUSTRY TURBINE FUEL FORECAST

PAD DISTRICT III

(Data is expressed in thousand gallons)

AIRPORT	STATE	CODE	1974 FORECAST		1975 FORECAST		1976 FORECAST	
			DOMESTIC	BONDABLE	DOMESTIC	BONDABLE	DOMESTIC	BONDABLE
SHREVEPORT	LA	SHV	10,909		12,020		12,931	
WICHITA FLLS	TX	SPS	414		414		534	
OTHER IN PAD	III		1,777		1,970		2,103	
TOTAL IN PAD	III		804,924	71,283	870,395	72,414	941,970	78,583

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AIR TRANSPORT ASSOCIATION OF AMERICA
1972 U. S. AIRLINE INDUSTRY TURBINE FUEL FORECAST

TABLE II

(Date is expressed in thousand gallons)

PAD DISTRICT IV

AIRPORT	STATE	CODE	1971 CONSUMPTION			1972 FORECAST			1973 FORECAST	
			DOMESTIC	BONDABLE	BONDED	DOMESTIC	BONDABLE	BONDED	DOMESTIC	BONDABLE
BILLINGS	MT	BIL	12,957			14,279			15,568	
BOISE	ID	BOI	5,042			5,226			5,555	
COLORADO SPG	CO	COS	3,456			3,407			2,892	
CASPER	WY	CPR	2,741			2,785			3,011	
DENVER	CO	DEN	226,505	7,829		245,566	8,035	2,600	260,546	8,669
GRAND JCT	CO	GJT	579			603			634	
GREAT FALLS	MT	GTF	3,930	1,619		4,050	1,651		4,415	1,799
HELENA	MT	HLN	538			590			649	
IDAHO FALLS	ID	IDA	500			522			570	
SALT LAKE CY	UT	SLC	40,837	1,325		42,419	1,351		44,343	1,472
OTHER IN PAD	IV		2,010			2,243			2,400	
TOTAL IN PAD	IV		299,095	10,773		321,690	11,037	2,600	340,583	11,940

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TABLE II

AIR TRANSPORT ASSOCIATION OF AMERICA
1972 U. S. AIRLINE INDUSTRY TURBINE FUEL FORECAST

PAD DISTRICT IV

(Data is expressed in thousand gallons)

AIRPORT	STATE	CODE	1974 FORECAST		1975 FORECAST		1976 FORECAST	
			DOMESTIC	BONDABLE	DOMESTIC	BONDABLE	DOMESTIC	BONDABLE
BILLINGS	MT	BIL	16,986		18,578		20,358	
BOISE	ID	BOI	5,913		6,482		7,086	
COLORADO SPG	CO	COS	4,072		4,091		4,379	
CASPER	WY	CPR	3,049		3,183		3,328	
DENVER	CO	DEN	271,268	8,799	281,922	9,141	289,434	9,536
GRAND JCT	CO	GJT	671		716		770	
GREAT FALLS	MT	GTF	4,492	1,799	4,706	1,865	4,935	1,933
HELENA	MT	HLN	712		782		859	
IDAHO FALLS	ID	IDA	585		614		644	
SALT LAKE CY	UT	SLC	45,167	1,472	48,462	1,526	49,836	1,582
OTHER IN PAD	IV		2,533		2,697		2,890	
TOTAL IN PAD	IV		355,448	12,070	372,233	12,532	384,519	13,051

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AIR TRANSPORT ASSOCIATION OF AMERICA
1972 U. S. AIRLINE INDUSTRY TURBINE FUEL FORECAST

TABLE II

(Data is expressed in thousand gallons)

PAD DISTRICT V

AIRPORT	STATE	CODE	1971 CONSUMPTION			1972 FORECAST			1973 FORECAST	
			DOMESTIC	BONDABLE	BONDED	DOMESTIC	BONDABLE	BONDED	DOMESTIC	BONDABLE
ANCHORAGE	AK	ANC	21,662	94,231	94,229	23,118	105,537	105,535	24,425	113,241
ANNETTE ISLD	AK	ANN	870			977			1,060	
BETHEL	AK	BET	500			550			575	
BURBANK	CA	BUR	3,229			2,509			2,594	
EPHRATA	WA	EPH	821	821						
FAIRBANKS	AK	FAI	3,818	9,307	9,307	4,624	11,400	11,400	4,956	11,900
FRESNO	CA	FAT	714			993			1,016	
SPOKANE	WA	GEG	13,034			15,008			16,232	
HONOLULU	HA	HNL	186,391	215,691	208,855	200,917	212,818	212,818	222,779	194,757
HILO	HA	ITO	20,145			22,072			19,930	
JUNEAU	AK	JNU	2,985			3,100			3,338	
LAS VEGAS	NV	LAS	84,283	188		94,899	191		100,309	208
LA INTL ARPT	CA	LAX	758,238	146,959	131,267	814,229	157,412	147,256	842,616	173,025
MOSES LAKE	WA	MWH	9,030			12,069			15,543	
KODIAK	AK	NHB	519			574			618	
OAKLAND	CA	OAK	8,496			9,486			9,935	
KAHULUI	HA	OGG	2,000			2,300			2,400	
NOME	AK	OME	600			700			750	
ONTARIO	CA	ONT	1,930			1,785			2,008	
PORTLAND	OR	PDX	65,903	475		70,577	484		72,706	528
PHOENIX	AZ	PHX	71,932	762		84,203	777		94,183	846
KENNEWICK	WA	PSC	1,393			1,533			1,673	
RENO	NV	RNO	7,221			10,255			10,403	
SAN DIEGO	CA	SAN	93,075	677		101,215	690		107,277	752
SEATTLE/TCMA	WA	SEA	195,500	71,930	68,254	214,847	84,403	80,960	230,740	33,652
SAN FRANCSCO	CA	SFO	489,832	108,614	104,662	532,717	118,446	109,475	555,697	100,508
SAN JOSE	CA	SJC	8,809			10,331			10,868	
SACRAMENTO	CA	SMF	4,039			5,287			5,377	
TUCSON	AZ	TUS	9,372			10,461			12,128	

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TABLE II

PAD DISTRICT V

AIR TRANSPORT ASSOCIATION OF AMERICA
1972 U. S. AIRLINE INDUSTRY TURBINE FUEL FORECAST

(Data is expressed in thousand gallons)

AIRPORT	STATE	CODE	1974 FORECAST		1975 FORECAST		1976 FORECAST	
			DOMESTIC	BONDABLE	DOMESTIC	BONDABLE	DOMESTIC	BONDABLE
ANCHORAGE	AK	ANC	25,080	122,872	26,153	137,307	27,537	161,671
ANNETTE ISLD	AK	ANN	1,110		1,125		1,290	
BETHEL	AK	BET	600		625		650	
BURBANK	CA	BUR	2,664		2,734		2,809	
EPHRATA	WA	EPH						
FAIRBANKS	AK	FAI	5,350	12,500	5,650	13,100	6,070	13,800
FRESNO	CA	FAT	1,039		1,132		1,145	
SPOKANE	WA	GEG	17,554		20,073		21,498	
HONOLULU	HA	HNL	237,972	208,350	245,706	226,948	259,293	262,194
HILO	HA	ITO	23,843		30,296		30,564	
JUNEAU	AK	JNU	3,428		3,584		3,752	
LAS VEGAS	NV	LAS	104,435	208	109,695	215	116,902	222
LA INTL ARPT	CA	LAX	875,475	187,573	924,158	197,408	972,780	207,839
MOSES LAKE	WA	MWH	20,988					
KODIAK	AK	NHB	638		658		694	
OAKLAND	CA	OAK	9,965		13,954		14,849	
KAHULUI	HA	OGG	2,500		2,600		2,750	
NOME	AK	OME	800		875		1,000	
ONTARIO	CA	ONT	2,028		2,083		2,142	
PORTLAND	OR	PDX	75,344	528	82,578	547	87,130	567
PHOENIX	AZ	PHX	97,819	846	103,293	877	107,305	909
KENNEWICK	WA	PSC	1,813		1,953		2,093	
RENO	NV	RNO	10,503		11,369		11,536	
SAN DIEGO	CA	SAN	112,358	752	122,599	779	130,310	807
SEATTLE/TCMA	WA	SEA	244,835	34,052	260,545	35,689	274,505	37,331
SAN FRANCSCO	CA	SFO	574,425	104,082	613,095	111,461	652,538	128,140
SAN JOSE	CA	SJC	11,247		11,268		11,305	
SACRAMENTO	CA	SMF	5,462		6,308		6,414	
TUCSON	AZ	TUS	12,827		13,797		14,073	

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AIR TRANSPORT ASSOCIATION OF AMERICA
1972 U. S. AIRLINE INDUSTRY TURBINE FUEL FORECAST

TABLE II

(Data is expressed in thousand gallons)

PAD DISTRICT V

AIRPORT	STATE	CODE	1971 CONSUMPTION			1972 FORECAST			1973 FORECAST	
			DOMESTIC	BONDABLE	BONDED	DOMESTIC	BONDABLE	BONDED	DOMESTIC	BONDABLE
OTHER IN PAD		V	4,795	4,513	4,500	5,112	4,500	4,500	5,543	4,500
TOTAL IN PAD		V	2,071,136	654,168	621,087	2,256,448	696,658	671,944	2,377,679	633,917

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TABLE II

PAD DISTRICT V

AIR TRANSPORT ASSOCIATION OF AMERICA
1972 U. S. AIRLINE INDUSTRY TURBINE FUEL FORECAST

(Data is expressed in thousand gallons)

AIRPORT	STATE	CODE	1974 FORECAST		1975 FORECAST		1976 FORECAST	
			DOMESTIC	BONDABLE	DOMESTIC	BONDABLE	DOMESTIC	BONDABLE
OTHER IN PAD		V	6,028	4,500	6,467	5,000	6,980	6,000
TOTAL IN PAD		V	2,488,130	676,263	2,624,373	729,331	2,769,914	819,480

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TABLE III

AIR TRANSPORT ASSOCIATION OF AMERICA
1972 U. S. AIRLINE INDUSTRY TURBINE FUEL FORECAST

(Data is expressed in thousand gallons)

STATE	1971 ACTUAL CONSUMPTION			1972 FORECAST			1973 FORECAST	
	DOMESTIC	BONDABLE	BONDED	DOMESTIC	BONDABLE	BONDED	DOMESTIC	BONDABLE
AK	31,665	108,051	108,049	34,447	121,437	121,435	36,624	129,641
AL	26,423			27,741			30,051	
AR	8,157			7,968			8,716	
AZ	81,574	762		94,961	777		106,638	846
CA	1,370,438	256,250	235,929	1,480,685	276,548	256,731	1,539,722	274,285
CO	230,796	7,829		249,816	8,035	2,600	264,324	8,669
CT	28,106	579	579	30,637	670	670	31,799	670
DC	139,282	1,000		145,877	2,800		154,174	4,244
DE	35			40			40	
FL	537,317	115,898	115,534	590,736	122,198	122,198	613,331	123,861
GA	341,416	7,216	7,216	352,179	12,000	12,000	368,551	14,000
HA	208,736	215,691	208,855	225,519	212,818	212,818	245,359	194,757
IA	16,155			17,447			17,267	
ID	6,074			6,353			6,784	
IL	756,817	100,957	94,217	827,605	107,201	87,401	851,228	95,370
IN	42,338			46,705			50,739	
KS	16,231			17,544			18,944	
KY	90,043			97,734			105,285	
LA	104,542	16,537	16,537	110,722	16,685	16,685	114,841	17,410
MA	197,943	72,152	71,752	208,407	87,266	82,266	219,046	76,829
MD	81,883	16,443	16,443	77,278	17,993	17,993	80,515	18,607
ME	981			1,005			1,025	
MI	149,873	8,485	8,478	175,800	13,294	13,294	188,812	14,750
MN	144,183	8,863	8,759	157,254	12,284	12,284	168,679	2,306
MO	265,924	4,600		279,825	7,600	3,000	307,434	5,200
MS	9,428			9,767			10,599	
MT	18,236	1,619		19,720	1,651		21,491	1,799

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AIR TRANSPORT ASSOCIATION OF AMERICA
1972 U. S. AIRLINE INDUSTRY TURBINE FUEL FORECAST

TABLE III

(Data is expressed in thousand gallons)

STATE	1974 FORECAST		1975 FORECAST		1976 FORECAST	
	DOMESTIC	BONDABLE	DOMESTIC	BONDABLE	DOMESTIC	BONDABLE
AK	37,972	139,872	39,721	155,407	42,180	181,471
AL	32,732		36,455		39,046	
AR	9,439		9,975		11,301	
AZ	111,006	846	117,486	877	121,808	909
CA	1,597,228	292,407	1,700,107	309,648	1,797,279	336,786
CO	276,278	8,799	287,014	9,141	294,893	9,536
CT	32,689	770	36,200	970	39,809	1,020
DC	159,336	4,644	165,430	4,644	172,357	4,644
DE	40		40		40	
FL	642,445	128,737	675,588	134,382	708,465	140,249
GA	388,841	14,500	417,318	15,000	441,927	16,000
HA	264,590	208,350	278,902	226,948	292,932	262,194
IA	17,247		17,227		17,697	
ID	7,207		7,856		8,541	
IL	872,810	97,137	919,605	104,997	965,073	106,918
IN	52,681	500	55,657	700	58,500	700
KS	19,953		21,183		22,465	
KY	110,857		118,381		127,689	
LA	122,149	18,878	131,233	20,356	139,059	21,387
MA	230,618	78,639	243,254	95,987	254,584	102,683
MD	84,260	19,220	92,120	19,838	95,491	20,555
ME	1,050		1,070		1,095	
MI	199,064	17,583	209,739	24,166	220,982	11,200
MN	178,762	2,284	193,375	2,309	208,000	2,309
MO	320,422	5,550	337,958	5,900	350,336	6,300
MS	11,517		12,702		13,755	
MT	23,078	1,799	25,004	1,865	27,150	1,933

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AIR TRANSPORT ASSOCIATION OF AMERICA
1972 U. S. AIRLINE INDUSTRY TURBINE FUEL FORECAST

TABLE III

(Data is expressed in thousand gallons)

STATE	1971 ACTUAL CONSUMPTION			1972 FORECAST			1973 FORECAST	
	DOMESTIC	BONDABLE	BONDED	DOMESTIC	BONDABLE	BONDED	DOMESTIC	BONDABLE
NB	21,751			21,374			22,152	
NC	72,120			76,317			82,384	
NH	175			180			185	
NJ	147,543	20,600	18,367	160,257	22,725	19,385	166,345	23,915
NM	34,367			35,794			37,916	
NV	91,504	188		105,154	191		110,712	208
NY	734,755	589,093	563,541	761,402	646,759	621,077	792,144	665,252
OH	166,901	3,185		195,513	3,535		205,445	1,580
OK	48,024			46,005			47,565	
OR	66,541	475		71,280	484		73,476	528
PA	247,617	42,238	41,838	285,764	40,741	38,241	295,769	41,186
RI	1,735			4,204			4,580	
SC	14,393			15,039			16,217	
SD	4,906			4,940			5,104	
TN	99,326			106,179			111,176	2,200
TX	533,671	41,165	32,906	552,855	46,163	37,737	569,302	47,42[illegible]
UT	40,901	1,325		42,489	1,351		44,419	1,472
VA	127,763	34,122	29,059	148,701	47,292	46,792	156,404	48,98[illegible]
VT	119			125			128	
WA	220,183	72,751	68,254	243,902	84,403	80,960	264,673	33,652
WI	55,796			60,158			62,643	
WV	3,671			3,995			4,250	
WY	3,088			3,312			3,565	
TOTAL OTHER	8,870			10,873			11,671	
TOTAL U.S.	7,650,316	1,748,074	1,646,313	8,249,584	1,914,901	1,805,567	8,650,243	1,849,637

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AIR TRANSPORT ASSOCIATION OF AMERICA
1972 U. S. AIRLINE INDUSTRY TURBINE FUEL FORECAST

TABLE III

(Data is expressed in thousand gallons)

STATE	1974 FORECAST		1975 FORECAST		1976 FORECAST	
	DOMESTIC	BONDABLE	DOMESTIC	BONDABLE	DOMESTIC	BONDABLE
NB	22,545		26,931		27,534	
NC	85,824		89,635		94,140	
NH	190		200		205	
NJ	173,411	27,250	185,628	28,460	194,074	29,290
NM	40,521		42,532		44,530	
NV	114,938	208	121,064	215	128,438	222
NY	832,878	701,738	864,894	741,333	900,694	787,514
OH	214,806	1,658	233,396	1,738	245,687	1,823
OK	49,222		50,980		54,089	1,800
OR	76,181	528	83,482	547	88,101	567
PA	313,764	44,338	334,605	45,079	349,863	48,222
RI	4,700		4,830		4,870	
SC	17,410		18,817		19,875	
SD	5,158		5,264		5,416	
TN	118,994	2,200	130,624	2,200	139,225	2,200
TX	589,066	52,405	637,973	52,058	694,754	57,196
UT	45,249	1,472	48,550	1,526	49,930	1,582
VA	159,125	51,163	166,710	53,793	173,828	62,169
VT	130		135		140	
WA	285,715	34,052	283,136	35,689	298,701	37,331
WI	66,899		71,202		75,953	
WV	4,265		4,275		4,280	
WY	3,636		3,809		4,005	
TOTAL OTHER	12,577		13,578		14,697	
TOTAL U.S.	9,041,475	1,957,527	9,572,850	2,095,773	10,085,483	2,256,710

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Consolidated U.S. Domestic/International
& Foreign International

TURBINE FUEL

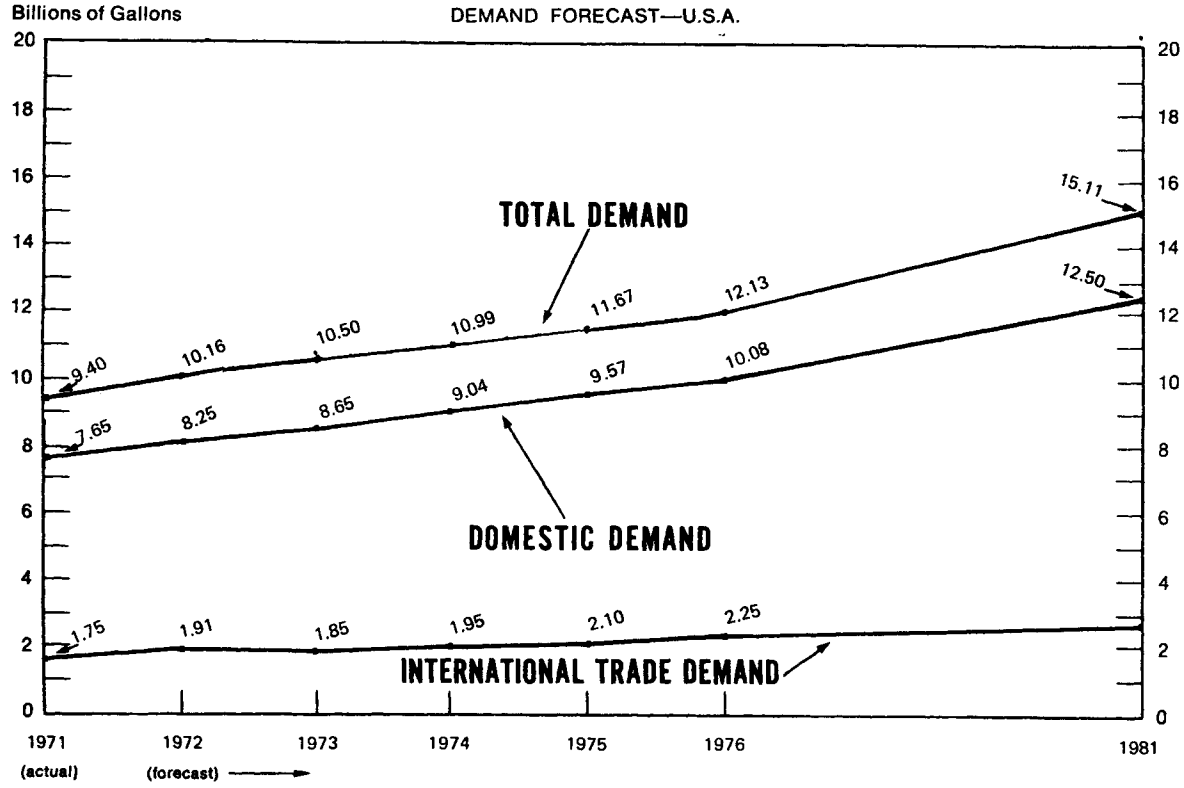

CHART 1

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Consolidated U.S. Domestic/International
& Foreign International

TURBINE FUEL

DEMAND FORECAST—U.S.A.

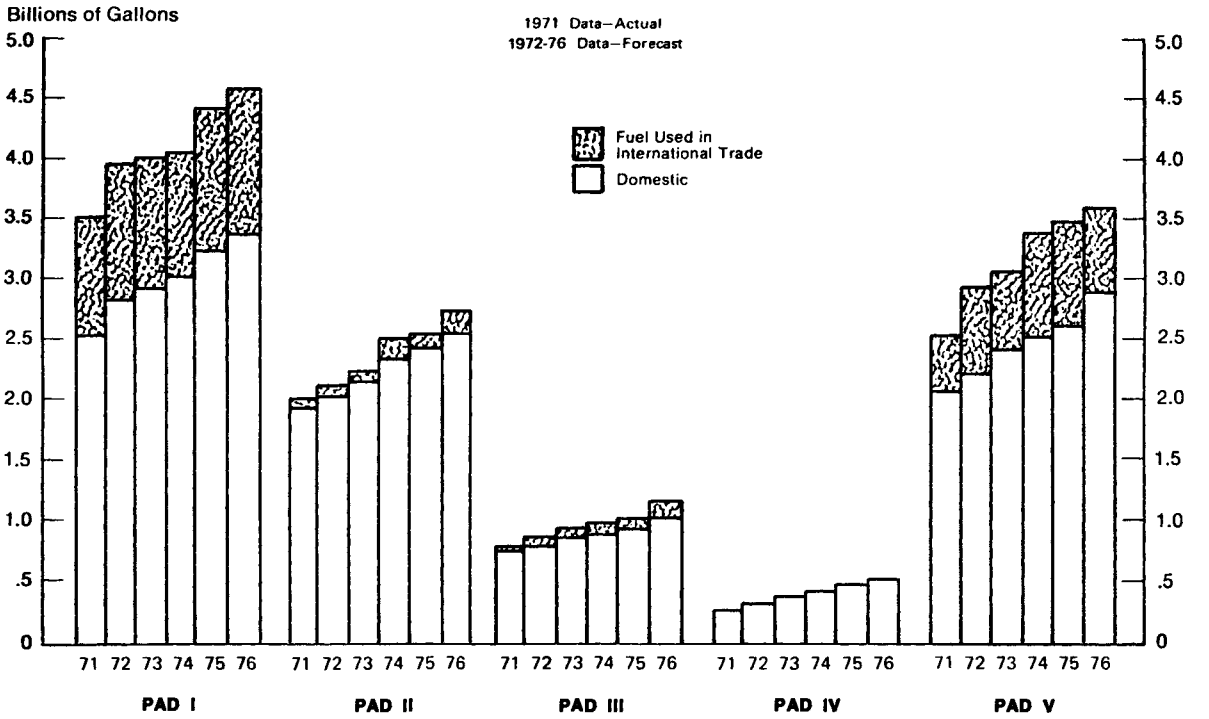

CHART 2

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Consolidated U.S. Domestic/International
& Foreign International

TURBINE FUEL

FORECAST TREND – U.S.A.

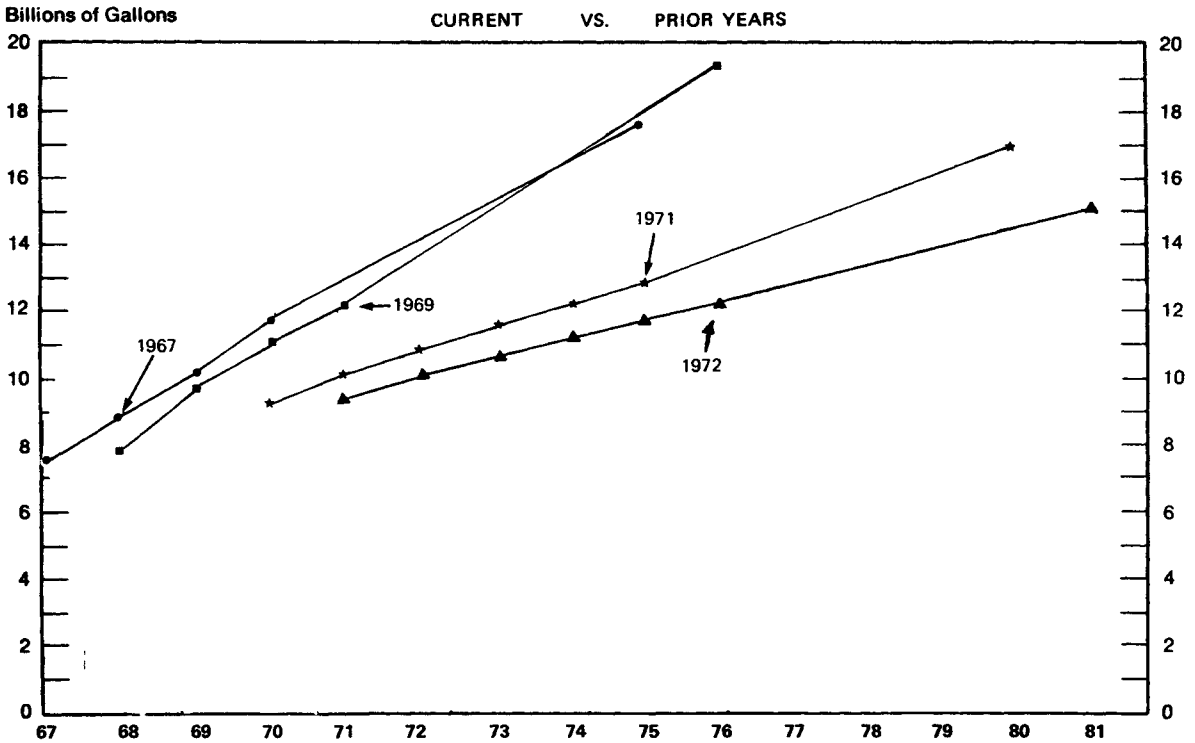

CHART 3

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Senator McINTYRE. Thank you.

I now call on Mr. Ed Kiley, vice president of the Research and Technical Services of the American Trucking Associations.

STATEMENT OF EDWARD V. KILEY, VICE PRESIDENT, RESEARCH AND TECHNICAL SERVICES, AMERICAN TRUCKING ASSOCIATIONS

Mr. KILEY. Thank you, Mr. Chairman.

My name is Edward V. Kiley. I am vice president of the American Trucking Associations and the Research and Technical Services, which is a national federation representing all types of motor carriers, private and for hire.

We have submitted for the record a more complete statement which I would like now to summarize briefly in consideration of the committee's time (see p. 69).

The seriousness of the energy crisis or fuel shortage as it affects our industry began to become apparent toward the end of last year. Our carriers traditionally operate on yearly contracts with fuel suppliers and in anticipation of increased traffic for this year and we were generally seeking supplies as much as 20 percent above the previous year's need. Suddenly and surprisingly, we were being told, first in one region and then in all, that new contracts could not be entered into on the old basis. Some would not be renewed at all—others on only a monthly basis with no assurance of gallonage.

In other cases new contracts could be considered but at 20 percent or more below the previous year's volume, this meant 40 percent less than what we thought we needed for the coming year.

We found the situation was prevailing throughout the entire transportation industry. Acting then in unison, the transportation industries, under the coordinating efforts of the Transportation Association of America, met this past January with Brig. Gen. George A. Lincoln, the then Director of Emergency Preparedness. He understood the problem but explained that under the law existing at that time no authority existed for the determination of any priority needs except in cases of actual national defense needs.

We discussed the causes of the problem. These, we believe, have now become common knowledge. He asked for recommendations as to solutions, which he said he would relay to the White House.

The day following the meeting the transport industries submitted to General Lincoln the following specific suggestions:

1. Take necessary government action to permit the use of 3 percent sulfur content fuels by electric utilities and other consumer industries. To free petroleum for transportation.
2. Establish a priority system of allocations which will insure that fuels in short supply will be available for the nation's most critical needs.

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3. Survey availability of government supplies of critically short fuels and, where possible, make them available immediately for priority use.

Recommendation No. 2 was obviously the most critical and we are pleased to see that Congress has taken action in this direction by insertion in the Economic Stabilization Act of 1973, an amendment giving the President authority to allocate petroleum products.

We indicated in our letter to Senator Jackson in support of S. 1570, Emergency Fuels and Energy Allocation Act of 1973, that provisions in his bill might provide a more direct approach. We think this now is a moot question. We believe the amendment in the act is a sound one, and we were pleased to hear this morning that you are petitioning the President to act.

The trucking industry is aware that there are potential pitfalls in the authority to set priorities and to allocate fuels and energy among the various consumers. However, it is our view that in light of the shortages and dislocations already experienced by our industry and forecasts of increased fuel shortages for this summer and winter, the lack of authority in this area would pose an even greater danger to the entire U.S. economy to transportation in general and to the trucking industry specifically.

The situation today continues to be completely frustrating and uncertain. Reports from our carriers indicate that many new contracts, where they can be negotiated, contain 30-day cancellation clauses and price escalation provisions. Many carriers unable to secure contracts, are being supplied on a month-to-month basis; and some are having to buy fuel on a spot market basis or pick it up on the road.

No matter where carriers are obtaining fuel, the price is increasing sharply, anywhere from 20 to 50 percent. Needless to say, however, our main concern is assurance of necessary gallonage and the uncertainty as to diesel fuel availability for the coming fall and winter.

Keeping in mind that our regulated carriers have a public requirement to perform the service and unless we can get the fuel we can not meet this requirement. Despite the easing of the fuel situation following the end of winter the problem continues in all areas of the country for our industry and for all carriers. Understandably, the degree of seriousness differs because of the marketing structure of petroleum products. We are not experts in petroleum production or marketing but I can assure you that the present situation is educating us in a hurry.

Our carriers are seriously concerned about the months ahead, particularly in the fall of the year when the demand for truck service reaches its peak.

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We see ahead a very definite threat to necessary transportation services unless adequate fuel supplies can be assured in the months ahead. In our industry, we are doing all we can to maximize our fuel usage today. Our carriers are reporting tightened intercity and local pickup and delivery schedules, the burning in some instances of less than ideal fuel, adjustments of fuel pumps to minimum specifications, reduction in engine warmup time and many others.

Keeping in mind the diesel fuel use of today's truck is more refined and more sophisticated than years ago because of the requirements for air pollution control.

We cannot just burn anything. Because of the difference in the engine today, there is an undesirable tradeoff in terms of increased maintenance expense and decreased engine life.

In conclusion, Mr. Chairman, we would like to comment briefly on the allegations or assertions by some that we could conserve fuel in transportation by some shifting of traffic from truck to rail—either directly or by greater use of piggyback.

To a great extent, as indicated in our prepared statement such shifts, although possible in a few cases, hold no promise of any meaningful saving. In fact, in the case of piggyback there could actually be a greater use of fuel because of piggyback truck terminal service not now necessary through direct truck services.

All forms of transportation are needed to perform the Nation's necessary transport services. They all need the fuel to carry on this service. The total requirements for freight transport service are not great in terms of the total end use of petroleum for all energy requirements—but this requirement in transportation, if cut back, could have disastrous effects on the economy.

We hope the committee and the Congress will not be misled by meaningless comparisons of transport efficiencies, comparisons which can only confuse and possibly stand in the way of rational solutions to the overall problem. We sincerely hope that there will be an active response to your request that action be taken to establish these priorities.

We cannot overestimate the extent to which the situation exists in our industry today. We want of course for you to know that we pledge our industry's cooperation in the support of all rational measures to insure that transportation has the fuel it needs. Thank you.

If I could, I would like to submit also for the record a publication that we have released recently called "American Trucking and the Energy Crisis." I would like to have that made part of the record.

[Mr. Kiley's complete statement and the publication referred to follow:]

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STATEMENT OF

EDWARD V. KILEY

VICE PRESIDENT

AMERICAN TRUCKING ASSOCIATIONS, INC.

BEFORE

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

UNITED STATES SENATE

MAY 7, 1973

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Mr.Chairman, and members of the Committee, my name is Edward V. Kiley. I am Vice President, Research and Technical Services of the American Trucking Associations. The organization is a federation with affiliated associations in every state and the District of Columbia, plus 13 conferences. In the aggregate, we represent every type and class of truck operation in the country, both for-hire and private.

We appreciate this opportunity to appear before your Committee and discuss the Nation's fuel crisis as it affects transportation in general and the trucking industry in particular.

The situation in our industry, and in all of transportation, has been serious for several months and we are seriously concerned about the future, particularly this summer and winter.

Toward the end of last year we began to receive calls from many of our carriers who were having difficulty in obtaining the diesel fuel necessary for their operations. The situation became critical first in the mid-west, then spread to the south and southwest, then to the northeast and finally to the west coast -- so that it has now become nationwide.

Our carriers receive their fuel supply primarily through contractual arrangements with suppliers on a yearly basis. Many of these contracts expired this past January or February. Our carriers, in anticipation of increased service demands for the coming year, were indicating fuel needs in the general area of 20% above last year. This need is reflective of an expanding economy with increased consumer purchasing. All transportation industries anticipate such increases.

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In response to this indication of increased needs our carriers were told, and are being told today, that not only will these additional requirements not be met but that there will be difficulty in providing as much as was contracted for in the previous year -- in some cases as much as 20% less. This would mean as much as 40% below actual requirements to carry on transportation service.

In some areas our carriers were told not only that no assurance can be made as to available fuel supplies but that because of the uncertainty of the situation no new contracts will be negotiated for the future. In these instances it became a hand-to-mouth operation on a catch-as-catch-can basis.

Last December a major motor carrier routinely requested bids for its 1973 diesel fuel needs from 12 major oil companies. All, including its current supplier, refused to bid.

In the mid-west a motor carrier was informed in late January that it had used its allotment of diesel fuel on a contract that runs through this September and could receive no more fuel until June 1.

Many small carriers in the northeast, most without supply contract protection, were told in early January that no more fuel was available at any price.

All of these motor carriers were abruptly initiated to the energy crisis, or more specifically the fuel oil shortage. Fuel allocations based upon past purchase history, often as low as 75% of that figure; refusal to renew supply contracts; and a maddening scramble to obtain alternate sources of fuel when primary sources fall short of needs -- all of these are symptoms of the fuel shortage as it affects the trucking industry.

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Carriers were resorting to all possible sources of fuel. In many cases diesel was available only at higher prices -- in some cases at prices equal or exceeding that paid for gasoline. This is a unique situation as diesel fuel has always been marketed at a price below gasoline -- one of the several factors making it a more efficient fuel for larger trucks.

It became increasingly obvious that unless a solution were found and fuel became available there would be first, a severe slowdown, and eventually a curtailment and ultimate breakdown of essential and required transportation services.

Feeling that some action at some authoritative level of Government was necessary to prevent the crisis from worsening, the various transportation modes met in Washington, D. C. early in January to discuss the general situation and determine courses of action. It was the consensus that there was a critical problem facing all forms of transportation -- freight and passenger. It was further decided that the seriousness of the situation should be brought to the immediate attention of the appropriate Government agency -- at that time the Office of Emergency Preparedness.

Under the auspices of the Transportation Association of America and through the cooperative effort of the National Defense Transportation Association a meeting was arranged with Brig. General George A. Lincoln, the then Director of the Office of Emergency Preparedness. The meeting was held in General Lincoln's office on January 18. Each form of transportation, rail, motor carrier, air, water carriers, intercity bus transportation and local transit, was represented.

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We submitted to General Lincoln a short summary statement of the problem with a detailed review of how it affected each form of transport.

We believe we had a highly informative meeting with General Lincoln although the results were understandably inconclusive. The most immediate action, the lifting of the import quotas on crude oil was discussed but the feeling of those present was that this would have no immediate effect on the situation in transportation, although in the long run it might be another story.

All of the factors that all agreed led to the current situation were discussed in considerable detail. In summary these were:

1. Increased consumption of petroleum for industrial and commercial purposes (including electric power generation) because of environmental considerations.

2. Unusually large demand for oil for home heating purposes due to extremely cold weather in certain parts of the country.

3. Increased consumption of gasoline due to anti-pollution devices on newer model automobiles.

4. Existence of import quotas which curtailed availability of foreign sources of petroleum.

Underlying the basic shortage of petroleum is the marketing structure under which the priorities are determined by price of the final product and where the greatest margin of return may be. Presently this is in the area of gasoline -- which General Lincoln indicated was aggravated under the existing price ceiling which froze the price of gasoline at higher levels relative to the price situation for distillate fuels.

It was the consensus that all possible steps should be taken to augment the supply of crude petroleum but in the meantime some type of

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priorities should be set for the end use of petroleum products. In the absence of such priorities it was obvious that necessary transportation services were not going to be performed.

General Lincoln asked that the transportation modes, in unison, present him with a set of recommendations to alleviate the immediate situation. In line with this request the following recommendations were submitted on behalf of all the transportation industries:

1. Take necessary government action to permit the use of 3% sulfur content fuels by electric utilities and other consumer industries. We understand that this action would make available millions of barrels per year of distillate fuel.

2. Establish a priority system of allocations which will ensure that fuels in short supply will be available for the nation's most critical needs.

3. Survey availability of government supplies of critically short fuels and, where possible, make them available immediately for priority use.

We went on to recommend that all agencies of the Federal Government, dealing with energy resources and consumer industries, be coordinated in the development of a national fuel energy policy.

General Lincoln retired at the end of January as Director of OEP. The Acting Director, Darrell Trent, in testimony before the Senate Interior and Insular Affairs Committee on February 1, indicated that several federal agencies were formulating a fuel shortage contingency plan which would include the following steps:

1. Voluntary conservation of fuel by all sectors of the economy;

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2. Voluntary reconversion of electrical power plants from petroleum to coal;

3. A system of priorities and allocations mandating which finished petroleum product the refiners would emphasize and how the product would be allocated among the various sectors of the economy. Under this plan the Secretary of Transportation and his Office of Emergency Transportation, in conjunction with the regulatory agencies, would be authorized to distribute the transportation sector's allocation.

4. Mandatory rationing of all petroleum products.

The Economic Stabilization Act Amendment of 1973, which extends and amends the act passed in 1970, contains language which would grant authority to the President for the "establishment of priorities of use and for systematic allocation of supplies of petroleum products, including crude oil in order to meet the essential needs of various sections of the Nation and to prevent anti-competitive effects resulting from shortages of such products."

On April 13, Senator Jackson introduced legislation, S. 1570, titled the "Emergency Fuels and Energy Allocation Act of 1973." This bill would authorize the President to "allocate energy and fuels when he determines and declares that extraordinary shortages or dislocations in the distribution of energy and fuels exist or are imminent and that the public health, safety or welfare is thereby jeopardized." This authority, according to Senator Jackson, could be exercised either on a national or regional basis.

The fuel allocation authority contained in the Economic Stabilization Act of 1973 is a step in the right direction, but it is the opinion of the trucking industry that S. 1570, "Emergency Fuels and Energy Allocation Act of 1973," is preferable both in terms of its detailed definition of the Presidential authority

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to be granted and in terms of the opportunity to receive testimony on this delicate and important subject.

The trucking industry is aware that there are potential pitfalls in the authority to set priorities and to allocate fuels and energy among the various competing consumers. However, it is our view that in light of the shortages and dislocations already experienced by our industry and forecasts of increased fuel shortages for this summer and winter, the lack of authority in this area poses an even greater danger to the entire United States economy, to transportation in general and to the trucking industry specifically.

The situation today can be characterized as frustrating and uncertain. Reports reaching ATA indicate that some carriers are receiving new contracts, usually containing 30-day cancellation clauses and price escalation clauses; some carriers unable to secure contracts are being supplied on a month-to-month basis; and some are having to buy fuel on a spot market basis or on the road.

No matter where carriers are obtaining fuel, the price is increasing sharply, anywhere from 20-50%. Needless to say, however, the main concern is assurance of gallonage and uncertainty as to diesel fuel availability next winter.

From listening to administration witnesses before the Senate Interior and Insular Affairs Committee May 1 and from the dialogue between administration and industry participants at the U. S. Chamber of Commerce conference on the President's energy message, fuel availability this winter

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apparently depends on the import of diesel fuel and heating oil. The message conveyed was that with the impending gasoline shortage this summer the refineries will have to concentrate on gasoline well into the normal winter distillate fuel inventory building period. Therefore, the imports will be heavily depended upon to build this inventory.

Focusing directly on the trucking industry's use of petroleum, the ATA Research Department estimates that for 1973 we will consume 8.2 billion gallons of diesel fuel -- private and for-hire trucking, intercity and local. This amounts to some 17% of the total number 2 fuel oil consumed nationwide.

In terms of gasoline, (excluding pick-ups and panels) we project a use of some 10.9 million gallons this year, or some 11% of the total gasoline demand.

However, in terms of total domestic consumption of petroleum for all purposes, truck use of diesel fuel is currently about 3.3% of total usage. When this usage is combined with that of other forms of transportation we find that the total is not very great in terms of total petroleum usage for all purposes -- however, this difference, although not great, when compared with the total is extremely critical in terms of the Nation's necessary transportation services. This need must be recognized in the formulation of government policies on priority recognition.

Just like every other industry, the trucking industry is constantly practicing conservation measures and looking for new operating efficiencies. Events such as the recent fuel shortages and fuel dislocations necessitate, of course, renewed efforts to conserve operational inputs, especially diesel fuel and gasoline.

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Since late December reports reaching ATA tell of tightened intercity and local pickup and delivery schedules, the burning in some instances of less than ideal fuel, adjustments to fuel pumps to minimum specifications, reduction in engine warm-up time and many others. It should be pointed out that these measures do save some fuel but do involve some unpalatible trade offs in terms of increased maintenance expenses and decreased service.

In conclusion, Mr. Chairman, we would like to comment on an idea that has surfaced regarding possible savings in diesel fuel by transferring some freight from truck to rail piggyback. There is no factual basis for any such conclusions. To the contrary, there is sound reason to conclude that any such shift, should it occur, could worsen the situation.

First of all, the only area that could be affected is in the consumption of diesel fuel in the intercity movement of truck traffic. As indicated, diesel powered trucks are consuming approximately 3.3% of the total domestic production of petroleum fuel and power. The remaining consumption of petroleum power in transportation is for gasoline for passenger cars and gasoline powered trucks, railroads, water carriers, buses and air transportation.

The question of fuel saving through transfer of traffic to rail, therefore, revolves entirely around the 3.3% use of diesel by the heavy duty truck operations. The actual amount that might be involved, however, is much smaller than 3.3% for the following reasons:

1. A significant portion of the 3.3% consumption is by trucks that in no way operate competitively with any other form of transportation. These are heavy duty construction vehicles, dump trucks, heavy hauling operations, etc. In summary, completely non-competitive, non-transferable operations.

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2. An equally significant portion of the 3.3% consumption is by trucks that are engaged in freight transportation of special commodities or in short haul operations that are not transferable to rail under any reasonable circumstances.

3. The remaining portion of the 3.3% which would contain any transferable traffic still contains large portions of truck traffic that actually presents a fuel saving through the highway move as this traffic goes directly from origin to destination with no significant movement through heavily congested urban areas. It is, therefore, a truck movement of the most efficient type from a fuel use standpoint.

If this traffic moved by piggyback it would, of necessity, involve origin and destination movements in the congested urban areas (to and from rail assembly and breakup points). This is the most inefficient type of truck movement from a fuel standpoint.

Equally inapplicable to the fuel situation as it applies to transportation, and also contributing nothing to the solution, is the reference being made by some as to rail vs. truck efficiency by saying that a "ton of freight shipped by truck takes nearly six times the energy shipped by rail."

The actual ratio may or may not be six to one -- but whatever it is it is completely irrelevant in the fuel situation. The idea that large amounts of intercity freight traffic could be shifted from trucks to rails overlooks the basic economic facts about intercity truck and rail service. Although there are, of course, areas of truck-rail competition, the facts are that for the amount of traffic that could in any way effect fuel use the two kinds of service are distinctly different and are not readily substitutable one for the other.

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Both the railroads and the trucking industry need an adequate supply of fuel to perform their services -- and both services in their entirety are needed by our economy. To talk of savings by shifting traffic only confuses the issue and diverts us from the real solutions we need.

In summary, the present use of fuel in heavy duty truck operations is small in terms of total petroleum fuel and power consumption. However, the transportation service performed through utilization of this relatively small percentage of total needs is enormous. The service is so great, and so vital, that even a minor reduction in necessary diesel fuel will have serious effects on the Nation's freight transportation services.

We are, therefore, vitally concerned about the fuel shortages which affect the United States economy as a whole, transportation in general and trucking specifically and, as an industry, support all rational suggestions for solving this problem.

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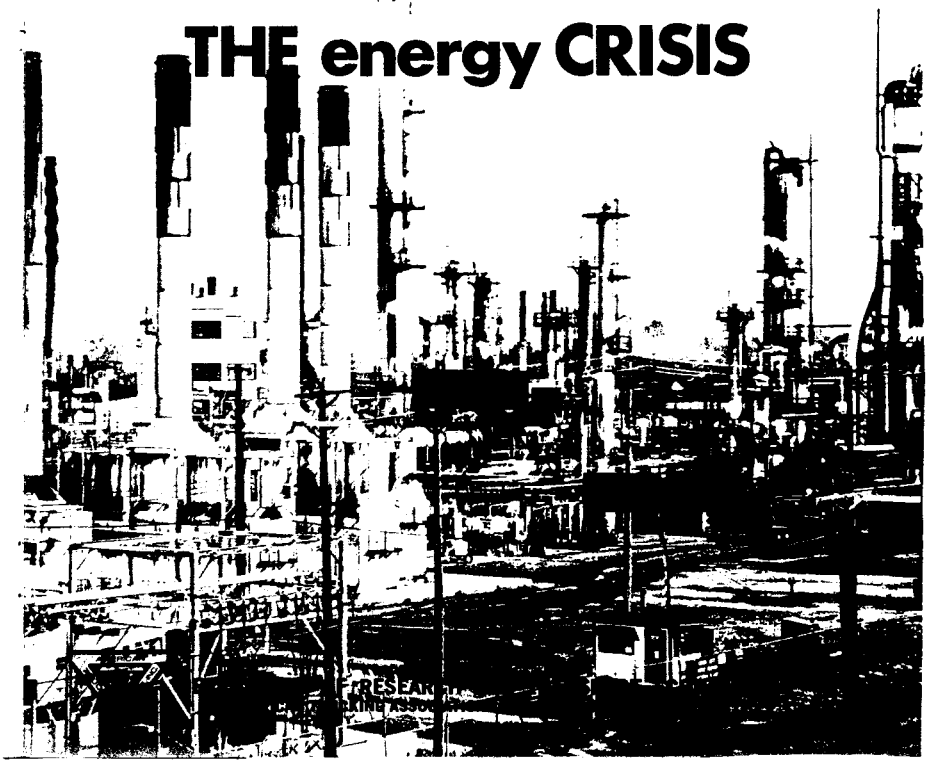
American Trucking

and

THE energy CRISIS



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Foreword

In this period of great concern for our ecology, many well-meaning suggestions have been advanced as to how national resources devoted to transportation can be better utilized. Among these has been the suggestion that intercity freight be shifted from trucks to railroads. This study has been prepared in an effort to put this proposal into proper perspective, and to point out some of the pitfalls involved in attempting its implementation.

The report was prepared by Richard A. Staley, assistant to the director of this department, with the advice and counsel of John L. Reith, assistant director of the department, and E.V. Kiley, vice president, research and technical services.

Allan C. Flott
Director

April, 1973

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AMERICAN TRUCKING AND THE ENERGY CRISIS

The present shortages of petroleum fuels, and forecasts of a National shortage of energy for the next several years, have brought many suggestions for energy conservation. A number of these suggestions have been directed at the transportation industry in general, and the trucking industry in particular.

One suggestion that has received a good deal of attention has been that freight be shifted from trucks to rails in order to conserve energy. It is this suggestion to which this report is directed.

The idea that trucks are a major contributor to the energy crisis, and that shifting freight from trucks to rails could conserve appreciable amounts of energy, is based upon misunderstandings about truck operations and of the role trucks play in America's transportation system today. In the first place trucks, particularly intercity trucks — which are the ones at which most of the suggestions for savings in fuel are directed — are not a major contributor to the energy crisis.

Secondly, opportunities for saving fuel through the shifting of freight from trucks to rail are limited and would, for the the most part, entail a serious downgrading of transportation service. The reduction in the quality of transportation service that would be required to save fuel could increase consumption in other areas of the economy.

From the standpoint of total energy consumed by our Nation, petroleum fuels were the largest single source in 1968 accounting for 27 quadrillion British Thermal Units or 40 percent. (1)

More than half of the petroleum fuels (53.7 percent) in that year were used to produce transportation of people and goods. The basic source of petroleum fuels, crude oil, yields several different fuel types. The more important, from the standpoint of transportation, are gasoline and diesel fuel. Almost all gasoline is used in transportation, primarily in highway transportation, whereas diesel fuel — which is a distillate similar to home heating oil — is used for many purposes.

In 1971 domestic consumption of petroleum for fuel and power amounted to 207,005.4 million gallons. Trucks, of all kinds, used 27,390.2 million gallons, or 13.2% of the total. Included in the 13.2% is truck use of diesel fuel, which amounted to 6,859.0 millions of gallons or 3.3% of total domestic consumption of petroleum for all purposes. (See Table I).

Since diesel fuel is the principal source of energy used by intercity trucks, and since diesel fuel used in local trucks would probably offset the amount of gasoline used in intercity trucks, the balance of this discussion will be confined to diesel fuel consumption and to intercity freight movements.

Based upon the assumptions outlined above, it appears that approximately 3.3 percent of total petroleum fuels are consumed by intercity trucks. These are the only trucks from which freight could be diverted to rails.

The idea that large amounts of intercity freight traffic could be shifted from trucks to rails overlooks several basic facts about intercity truck and rail service. The first, and most important, fact is that for the most part the two kinds of service are distinctly different and are not readily substitutable one for the other.

Reference to the freight commodity statistics for railroads shows that they are primarily long haul carriers of bulk commodities, while motor carriers handle smaller shipments and manufactured commodities primarily. In 1969, the latest year for which comparable data have been published, rails originated 126 million tons of metallic ores, 383 million tons of coal and 171 million tons of nonmetallic minerals (stone, sand and gravel, fertilizers, etc.). The three commodities accounted for nearly $2 billion in rail revenues for 1969.

Motor carriers, in the small shipments area which they dominate, handled 94 million tons of less truckload traffic in 1969, receiving more than $4¼ billion for this service. The negligible competition between modes in these areas is clear from the contrasting figures for these commodities. Rails handled only 800 thousand tons of small shipments to go with a revenue of

(1) U.S. Department of Interior, Bureau of Mines.

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$35 million, compared to the $4¼ billion by motor carriers. For the three bulk commodities cited, motor carriers handled only 9 million tons with revenues of $32 million compared to the $2 billion for railroads.

The freight commodity statistics reveal that both modes carry substantial amounts of manufactured commodities. In regard to these commodities, a recent study by Alexander Lyle Morton, **Competition in the Intercity Freight Market,** U.S. Department of Transportation, Office of Systems Analysis and Information, provides a great deal of information on competition between the modes.

Mr. Morton analyzed a 1967 freight bill study compiled by the Middle Atlantic Conference from participating motor carriers. He compared the traffic of these motor carriers with the manufactures and miscellaneous traffic of the railroads as determined from the 1965 Way Bill Sample of the Interstate Commerce Commission. Based on the characteristics of this traffic by commodity classification, Mr. Morton then analyzed the total manufactures and miscellaneous shipments in the 1967 Census of Transportation. The major finding of his study is that only 40% of this traffic is truly competitive as between railroads and motor carriers. And this level is attainable only if it is assumed that shipment size can be readily altered without additional cost to the shipper and consignee for some portion of the less-than-truck-load traffic. The percentage of competitive traffic falls to only 25% if shipment size is not readily alterable. Mr. Morton summarized this finding in the following language:

> "— The Census of Transportation divides all shipments of manufactures among 85 shipper classes. All shipments within each class are classified into one of thirteen mileage blocks and into one of thirty weight-mileage blocks. Using the criterion that any block of traffic in which both rails and motor carriers show significant participation is 'competitive', it is found that roughly forty percent of the 1.4 billion tons of manufactures produced in 1967 can be considered competitive between motor carrier and rail. This fraction is raised to sixty percent if shipment sizes are thought to be readily alterable or are determined by the mode that shipper and consignee agree upon. On the other hand, the fraction of competitive tonnage is on the order of only twenty-five percent if shipment sizes are thought to be determined quite independently of the mode chosen and are not readily alterable without additional costs to the shipper and consignee.
>
> "— Using the more stringent criterion of competitiveness that shipment weights are relatively fixed and independent of the choice of mode, about 340 million tons of manufactures are judged to be competitive. Only seven shipper classes among the 85 account for nearly half of this total. They are: grain mill products and sugar, miscellaneous food preparations, pulp and paper, concrete, gypsum and plaster, steel works and rolling mill products, motor vehicles and parts, and hydraulic cement, cut stone, and stone products."

The basis for Mr. Morton's conclusions can be readily seen in two of the appendix tables showing the distribution of manufactured commodities in the Census of Transportation, in terms of length of haul and size of shipment. Table II showing the distribution by size of shipment found in the 1967 Census of Transportation, for example, indicates that private and for-hire motor carriers handle more than 85% of all tons transported in shipments under 30,000 pounds in weight. From these data and his own study, Mr. Morton concluded that rails were not competitive for traffic weighing less than 10,000 pounds.

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Mr. Morton also concluded that shipments of more than 60,000 pounds, or 30 tons, were relatively immune from motor carrier competition because of the size of shipment. Thus, the area of competition between railroads and motor carriers is limited to shipments weighing between 10,000 and 60,000 pounds. According to the 1967 Census of Transportation, there were approximately 407 million tons of traffic in these weight categories, of which 72 million tons moved by rail and 335 million tons moved by private and for-hire motor carriers. This represents approximately 25% of the total manufactures and miscellaneious commodities studied in the Census of Transportation.

It may be argued that some larger portion of intercity truck traffic may be shifted to rail piggyback service which will result in energy savings.

There is no factual basis for any such conclusion. To the contrary, there is sound reason to conclude that any such shift, should it occur, could worsen the situation.

First of all, the only area that could be affected is in the comsumption of diesel fuel in the intercity movement of truck traffic. As Table I shows, diesel powered trucks are consuming approximately 3.3% of the total domestic production of petroleum fuel and power. The remaining consumption of petroleum power in transportation is for gasoline for passenger cars and gasoline powered trucks, railroads, water carriers, buses and air transportation.

The question of fuel saving through transfer of traffic to rail piggyback, therefore, revolves entirely around the 3.3% use of diesel by the heavy duty truck operations. The actual amount that might be involved, however, is much smaller than 3.3% for the following reasons:

1. A significant portion of the 3.3% consumption is by trucks that in no way operate competitively with any other form of transportation. These are heavy duty construction vehicles, dump trucks, heavy hauling operations, etc. In summary, competely non-competitive, non-transferable operations.

2. An equally significant portion of the 3.3% consumption is by trucks that are engaged in freight transportation of special commodities or in short haul operations that are not transferable to rail under any reasonable circumstances.

3. The remaining portion of the 3.3% which would contain any transferable traffic still contains large portions of truck traffic that actually presents a fuel saving through the highway move as this traffic goes directly from origin to destination with no significant movement through heavily congested urban areas. It is, therefore, a truck movement of the most efficient type from a fuel use standpoint.

If this traffic moved by piggyback it would, of necessity, involve origin and destination movements in the congested urban areas (to and from rail assembly and breakup points). This is the most inefficient type of truck movement from a fuel standpoint.

In summary, the present use of fuel in heavy duty truck operations is extremely small in terms of total petroleum fuel and power consumption. However, the transportation service performed through utilization of this relatively small percentage of total needs is enormous. The service is so great, and so vital, that even a small reduction in necessary diesel fuel could have serious effects on the nation's freight transportation services. The portions of this small amount that could conceivably be affected by any transfer of intercity traffic from highway to piggyback would be insignificant in terms of the energy problem.

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IMMEDIATE ENERGY SAVINGS POSSIBLE

A more practical and feasible method of increasing energy efficiency in transportation is currently and immediately available if the trucking industry would be permitted to utilize more modern equipment. Present Federal and State size and weight restrictions have inhibited the use of vehicles which could save as much as 31 percent in fuel consumed to provide a given volume of transportation service.

Modern vehicle combinations, operating under tested and approved gross and axle limits, can transport more freight per load. Put another way, fewer vehicles are needed to handle a given freight volume. More modern vehicle dimensions discussed below have already been endorsed by the American Association of State Highway Officials and by the Federal Highway Administration. Such equipment is now being operated off of the Interstate Highway System in more than a half dozen states. In the case of the recommended twin trailer combinations (a tractor drawing two short trailers at an overall length of 65 feet), these are now operating in 29 states.

The mechanics of fuel conservation through the use of more modern equipment may be seen in Table IV. Freight handled by the motor carrier industry may be divided into two basic types. Heavy or dense freight produces a maximum legal load without physically filling a vehicle, while light and bulky freight will fill a vehicle long before optimum weight is achieved. The "break even" (load and volume) point is now about 18 to 20 pounds per cubic foot. Freight lighter than this will fill a standard 40-feet semitrailer without yielding maximum legal weights. However, the use of twin trailers permits additional cubic capacity sufficient to overcome this. The normal 65-foot long twin trailer combination may be loaded to full physical and weight limits at a freight density of 12 to 13 pounds per cubic foot — which is the average density of general freight (mixed freight) as presently tendered to the motor carriers.

Adoption of more modern weight standards, developed by Federal and State highway officials, which include gross weight control that develops gross weights according to numbers of axles and axle spacing will provide more efficient motor carriage of both dense and light commodities.

The increased efficiency, measured in terms of fuel saved, has been computed and shown in Table IV in terms of fuel and equipment required to transport one million tons of freight one mile. To carry one million tons of dense freight in a current standard semitrailer combination (40 foot trailer) requires 42,544 trips, and will consume 10,125 gallons of diesel fuel per mile. If the freight is light and bulky, the requirement increases to 64,041 trips and 13,128 gallons of diesel.

If, however, the light and bulky freight is carried on current-type 65-foot long twin trailers, the requirement drops to 44,853 vehicle trips and a consumption of 10,316 gallons. Thus, substituting twin trailers for conventional tractor semitrailers for the transportation of light commodities will save 30 percent in terms of vehicle trips and 21.4 percent in fuel.

Moving to the more modern limits described above, the savings can be even greater. The proposed 65-foot twin trailer can handle one million tons of freight in 35,518 vehicles using 9,057 gallons of diesel fuel. This represents a 44.5 percent savings in equipment and a 31 percent reduction in fuel—when compared to transporting this same freight in a present-weight tractor semitrailer combination.

Other comparisons show savings for carrying dense freight which range up to 16.5 percent fewer trips and 10.6 percent less fuel consumed. Even where present 65-foot long twin trailers are in use, the proposed higher size and weight limits (for the same unit) will result in savings of up to 20.8 percent in number of trips and 12.2 percent in reduced fuel consumption.

In summary, a modest updating of vehicle size and weight laws could significantly reduce the diesel fuel requirements of the trucking industry.

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TABLE I

1971 U. S. Consumption of Petroleum Fuel and Power
(millions of gallons)

	U.S. Total (1)	Used in Transportation (1)	Used by Motor Vehicles (2)	Used by Motor Vehicles on Highways (2)	Used by Trucks on Highways (5)	Percent of Total Used by Trucks (5)
Liquified gases	11,151.0	1,369.2	(3)	(3)	(3)	(3)
Jet fuels	15,149.4	15,149.4	-0-	-0-	-0-	-0-
Gasoline	92,584.8 (4)	92,584.8 (4)	93,533.5 (4)	90,049.2 (4)	20,531.2	22.0%
Distillate fuels (including diesel)	41,281.8	12,398.4	8,017.7 (3)	7,595.8 (3)	6,859.0 (3)	16.6%
Kerosene	3,759.0	-0-	-0-	-0-	-0-	-0-
Residual fuels	34,288.8	4,704.0	-0-	-0-	-0-	-0-
Still gas	6,564.6	-0-	-0-	-0-	-0-	-0-
Petroleum coke	2,226.0	-0-	-0-	-0-	-0-	-0-
	207,005.4	126,205.8	101,551.2	97,654.0	27,390.2	13.2%

(1) 1971 preliminary, U.S. Bureau of Mines

(2) 1971 Federal Highway Administration, "MF" table series

(3) Minor amount of liquified gases used in motor vehicles is included with distillate fuels

(4) The higher total in column 3 than the reported U.S. total in column 1 may be caused by different accounting methods (measuring consumption at different points), or by fuel in storage or in transit.

(5) Estimates made by ATA Department of Research, based on data published as MF tables by the Federal Highway Administration, Department of Transportation.

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Table II

Tons Transported By Size of Shipment By All Modes of Transportation — 1967 (1)
(In 1,000 Tons)

Shipments (lbs.)	Rail	% of Total	For-Hire Motor Carriers	% of Total	Private Motor Carriers	% of Total	Total Private & For-Hire	% of Total	Other Modes (2)	% of Total	Total All Modes
Under 50	25	2.4	404	39.4	133	13.0	537	52.4	464	45.2	1,026
50-99	41	3.2	806	63.6	240	18.9	1,046	82.5	181	14.3	1,268
(Under 100)	(66)	(2.9)	(1,210)	(52.7)	(373)	(16.3)	(1,583)	(69.0)	(645)	(28.1)	(2,294)
100-199	84	2.9	2,051	71.4	570	19.8	2,621	91.2	169	5.9	2,874
200-499	211	2.7	5,770	74.7	1,487	19.2	7,257	93.9	260	3.4	7,723
500-999	263	2.9	6,713	74.0	1,856	20.5	8,569	94.5	232	2.6	9,064
(Under 1,000)	(626)	(2.9)	(15,744)	(71.7)	(4,281)	(19.4)	(20,025)	(91.1)	(1,309)	(6.0)	(21,960)
1,000-9,999	7,984	10.7	45,199	61.4	19,464	26.4	64,663	87.8	1,083	1.5	73,730
10,000-29,999	16,372	13.6	57,966	48.0	45,261	37.4	103,227	85.4	1,165	1.0	120,764
(Under 30,000)	(24,982)	(11.5)	(118,909)	(54.9)	(69,006)	(31.9)	(187,915)	(86.8)	(3,557)	(1.6)	(216,454)
30,000 & Over	377,946	55.2	184,240	26.9	85,924	12.5	270,164	39.4	36,736	5.4	684,846
Totals	402,928	44.7	303,149	33.6	154,930	17.2	458,079	50.8	40,293	4.5	901,300

(1) Census of Transportation; Commodity Transportation Survey — Shipper Group 9 (Petroleum and Coal Products) has been omitted becuase it is moved in bulk quantities predominantly.

(2) Other modes include: air, water, parcel post, railway express, freight forwarders, motor express carriers, etc. Movements by pipeline were not included in the survey.

Source: Bureau of The Census; 1967 Census of Transportation, Commodity Transportation Survey — Shipper Groups.

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TABLE III

Tons Transported By Length of Haul By All Modes of Transportation — 1967 (1)
(in 1000 tons)

Length of Haul (miles)	Rail	% of Total	For Hire Motor Carriers	% of Total	Private Motor Carriers	% of Total	Total Private & For Hire	% of Total	Other Modes (2)	% of Total	Total All Modes
Under 50	25,373	18.6	53,529	39.3	51,588	37.8	105,117	77.1	5,839	4.3	136,329
50-99	38,367	27.5	55,775	39.9	41,452	29.7	97,227	69.6	4,137	2.9	139,731
100-199	64,811	37.1	66,566	38.1	39,203	22.5	105,769	60.6	4,029	2.3	174,609
200-299	61,649	48.5	44,008	34.6	16,204	12.7	60,212	47.3	5,325	4.2	127,186
300-399	40,372	49.4	29,510	36.1	7,009	8.6	36,519	44.7	4.848	5.9	81,739
400-499	34,761	59.8	17,041	29.3	4,245	7.3	21,286	36.6	2,070	3.6	58,117
500-599	26,754	61.4	12,730	29.2	3,291	7.6	16,021	36.8	783	1.8	43,558
600-799	43,016	62.5	19,696	28.6	3,413	5.0	23,109	33.6	2,662	3.9	68,787
800-999	27,795	64.8	9,917	23.1	1,665	3.9	11.582	27.0	3,542	8.2	42,919
1,000-1,199	14,824	64.5	4,668	20.3	1,011	4.4	5,679	24.7	2,482	10.8	22,985
1,200-1,499	13,347	70.3	3,478	18.3	474	2.5	3,952	20.8	1,686	8.9	18,985
1,500-1,999	23,187	81.0	3,352	11.7	473	1.7	3,825	13.4	1,628	5.6	28,640
2,000 & over	16,970	72.3	2,465	10.5	284	1.2	2,749	11.7	3,743	16.0	23,462
TOTALS	431,226	44.6	322,735	33.4	170,312	17.6	493,047	51.0	42,774	4.4	967,047

(1) Census of Transportation; Commodity Transportation Survey — Shipper Group 9 (Petroleum and Coal Products) has been omitted because it is moved in bulk quantities predominantly.

(2) Other modes include: air, water, parcel post, railway express, freight forwarders, motor express carriers, etc. Movements by pipeline were not included in the survey.

SOURCE: Bureau of the Census; 1967 Census of Transportation; Commodity Transportation Survey — Shipper Groups.

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Table IV

CARRYING CAPACITIES AND FUEL USE FOR TYPICAL PRESENT AND PROPOSED VEHICLE COMBINATIONS

	Present Federal Limits			Proposed Modernized Limits *		
	55-Foot Tractor Semitrailer (40 ft. semitrailer)		65-Foot Twin Trailer	55- Foot Tractor Semi-trailer (40 ft. semitrailer)	55-Foot Tractor Semi-trailer (45 ft. semitrailer)	65-Foot Twin Trailer
	Dense Freight	Light & Bulky Freight				
Gross Combination Weight (lbs.)	73,280	57,500	73,280	75,500	78,000	85,000
Number of Loads Required to Carry 1 million tons of freight	42,544	64,041	44,853	40,626	39,231	35,518
Fuel Consumption Rate — Gallons of Diesel Fuel per mile	0.238	0.205	0.230	0.243	0.246	0.255
DIESEL FUEL REQUIRED TO CARRY ONE MILLION TONS ONE MILE	10,125 gallons	13,128 gallons	10,316 gallons	9,872 gallons	9,561 gallons	9,057 gallons

* Based on "Table B" page 137, **Maximum Desirable Dimensions and Weights of Vehicles Operated on the Federal Aid Systems,** U.S. Government Printing Office, Washington, 1964.

Notes — Gross weights based on typical present and proposed vehicle configurations used in intercity service.

Number of trucks (or loads) required to move one million tons of freight computed by dividing maximum payload (in tons) into 1,000,000.

Fuel Consumption rate obtained from Cummins Engine Company's vehicle simulator computer based on a typical intercity trip (473 miles) at average road speeds (52 mph +,-) utilizing comparable current equipment.

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Table V

PERCENTAGE SAVINGS

TRUCK TRIPS AND DIESEL FUEL CONSUMED

	Number of Truck Trips	Diesel Fuel Consumed
Present Federal Limits		
Light & Bulky Freight Substitute 65-Foot Twin Trailer for 55-Foot Tractor Semitrailer	30.0% savings	21.4% savings
Proposed Modernized Limits		
Light & Bulky Freight Substitute **Proposed** 65 Foot Twin Trailer For **Present** 55-Foot Tractor Semitrailer	44.5% savings	31.8% savings
Dense Freight Substitute **Proposed** 55-Foot Tractor Semitrailer For **Present** 55-Foot Tractor Semitrailer	4.5% savings	2.5% savings
Substitute **Proposed** 55-Foot Tractor Semitrailer — With 45-Foot Trailer — For **Present** 55-Foot Tractor Semitrailer	7.8% savings	5.6% savings
Substitute **Proposed** 65-Foot Twin Trailer for **Present** 55-Foot Tractor Semitrailer	16.5% savings	10.6% savings
Substitute **Proposed 65-Foot** Twin Trailer for **Present** 65-Foot Twin Trailer	20.8% savings	12.2. savings

NOTES — See Table IV for sources and coverage.

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Senator McIntyre. When you speak of the trucking industry in its entirety, what percentage of your fuel is diesel?

Mr. Kiley. In the case of the intercity trucking practically all is diesel today.

I would say 95 percent is diesel today. There is a small amount, a very limited amount of gasoline used in intercity trucking, but it has practically ——

Senator McIntyre. All the trucks I have seen running around, 95 percent.

Mr. Kiley. Intercity, the large combinations that you will see on the highway. I am not talking about pickup and delivery trucks that you will see—straight trucks, making local pickup and delivery service. Take United Parcel Service which is the largest motor carrier, they have local trucks which are van trucks. They are gasoline powered. They also operate, however, intercity truck trailers. These are diesel powered.

When I am speaking of intercity trucks, I am talking now of 95 percent diesel power.

Senator McIntyre. We will hear from the last member of this particular panel, Mr. James R. Smith.

STATEMENT OF JAMES R. SMITH, PRESIDENT, AMERICAN WATERWAYS OPERATORS, INC., ACCOMPANIED BY BERNARD GOLDSTEIN, PRESIDENT, ALTER CO., DAVENPORT, IOWA

Mr. Smith. Mr. Chairman, first of all, may I congratulate the committee and you, as Chairman, for calling this hearing to get the input from the industry that is moving the commodities of America's commerce. There is no question in my mind but there is a very critical fuel situation in the United States.

I would like to address myself to the water carrier side of this problem. I did not know when this hearing was called the exact format you intended to use, Mr. Chairman. So I have asked to come with me today a man who is directly involved in the problem. He will be available to answer questions after I finish my statement. May I present Mr. Bernard Goldstein of the Alter Co. of Davenport, Iowa.

Senator McIntyre. Why don't you bring him up?

Mr. Smith. With your permission, I would like to do that.

I represent the American Waterways Operators, Inc., the national association of the barge and towing industry in the United States. I am going to paraphrase my remarks, Mr. Chairman, but I would like to have my statement put in as if the whole thing had been read.

Senator McIntyre. It will be.

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Mr. SMITH. The two or three key points I would like to make are as follows:

As an important segment of this Nation's transportation system, we are deeply concerned over the present and growing shortages of the fuel necessary to propel this industry.

To determine the breadth of the problem on our inland and coastal waters and to try to get a handle on the expected impact, AWO has created an ad hoc committee consisting of both members and nonmembers.

What I am presenting today is a distillation of our committee's "first cut" at the problem.

In order to appreciate the importance of sufficient fuel to keep the nation's waterborne traffic moving, let me mention that in 1972 the barge and towing industry moved about 600 million tons of cargo over some 26,000 miles of inland waterways for a total of 210 billion ton-miles; roughly 16 percent of the Nation's total transportation of commodities.

The water transportation industry is singularly well-equipped for the movement of bulk commodities because it provides the most efficient method of using fuel for the movement of heavy, bulk commodities more ton-miles per gallon by water than any other method.

Of the varied commodities moving over the waterways, I would like to call attention to 2 or 3 that are extremely crucial.

Point No. 1. Something not well known is that nearly 58 percent of all the products moving by water consist of energy for ultimate use by others. Coal, lignite, crude and refined petroleum products such as gasoline, diesel fuel, and heating oil are the major components of this 58 percent.

There is small wonder then that the towing industry is so concerned over the diesel fuel needed to move this energy for others.

An initial staff study of the breadth of the problem, accomplished primarily by telephone contracts with members in various parts of the Nation, indicates an ever-increasing difficulty in securing sufficient quantities of fuel; present and impending rationing by fuel suppliers, increased prices in most areas; extensive searching and very costly retransportation, sometimes from very distant points, in order to secure fuel to keep the towboats moving; occasional tieups of equipment for lack of fuel.

Thus far in 1973, the impact of the diesel fuel shortage has been spotty, however, on a geographical basis except in Mid-Continent America, primarily on the Mississippi River system from about Memphis upstream and particularly in the Midwest from St. Louis upstream, which is very heavily dependent on barge traffic for the importation of fuel oil and bulk commodities and for the export of the grain from the products of the farm.

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Some tows traveling north from the Gulf Coast have been stranded in the St. Louis area because they were unable to purchase fuel there either to continue upstream or make a return trip home. In that area fuel suppliers serving the towing industry are finding it increasingly difficult to secure sufficient fuel for their customers.

We find this trend continuing to increase in other parts of the United States. But the fact that the industry in the midcontinent area of the United States has not substantially curtailed operations yet because of the fuel shortage is because right now they are operating at the less than 50 percent of their capacity because of the prolonged floods on the Mississippi River and its tributary streams.

If there is a diesel fuel shortage now, wait until June. Because of the floods and slowly-receding waters and the almost totally saturated situation in the midcontinent farmlands, the farmers are not yet in the fields. Because of the highwater, the outdoor construction industry is nearly motionless. When the floods recede, when the farmlands dry out and the farmers' tractors are running 24 hours a day, and when the construction industry, including the highway construction industry, begins to repair and reconstruct after the most disastrous flood in this Nation's history, and when the barge industry is expected to make up on delayed shipments—play catch football so to speak—the fuel problems of today will be magnified many times over and I think what we are talking about today will pale into insignificance.

The serious consequences to the Nation's economy if water-borne commerce is curtailed cannot be overemphasized. I said 58 percent of the total tonnage that our industry hauls is transportation of energy for use by others.

Of this total tonnage approximately 20 percent is coal to be used as a boiler fuel for the electric utility industry. The towing industry's inability to move sufficient coal would, of course, increase demands for distilled petroleum products by those utilities equipped to burn oil and able to find it.

Since petroleum and coal are major commodities, the ripple effect will curtail highway and rail traffic and electric power and a host of consumer production facilities.

There will be other effects upon the Nation's economy; for example, the effect of curtailment of the movement of waterborne agricultural products and chemicals. I needn't remind this committee of the balance-of-payments problems which this Nation faces.

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Agriculture Secretary Butz said recently that agricultural products are one of the most notable commodities in world trade which the United States can sell on a competitive basis.

About 80 percent of the wheat, corn, soybeans, and other bulk grains arriving at the Port of New Orleans for export arrive by water—about 20 million tons. Total agricultural products moving on the water ways in 1971 was more than 30 million tons. If there is insufficient movement of these cargoes, America's farmers are going to suffer and the Nation's international trade posture will continue to suffer.

Curtailment, as just a sidelight, of water transportation service will also slow down the much needed movement of fertilizer for 1973 crops.

Other representatives of the farm industry will doubtless emphasize these points. What I wish to do is to highlight the significant role which waterway transportation plays in this movement of agricultural commodities.

Waterborne commerce basically consists of the bulk raw materials of industry. Chemicals are in that category. The effect of a reduction in the movement of raw chemical materials is too complex for easy analysis. But industrial productivity and economic stability in both basic and finished product manufacturing would be felt throughout the Nation's economy.

Mr. Chairman, I have attempted in very general terms to indicate the present status and the expected status and impact of the critical shortages of fuel to move the products carried on the nation's waterways. It would be an understatement for me to say that the barge and towing industry expects a difficult situation in the months ahead. It is going to be real tough. The companies are going to do their level best not to go broke, not to have tieups.

How they will accomplish that, I do not think anybody yet knows. My purpose has been to dramatize the need for this Nation to recognize the unique role which water transportation plays in transporting of energy for use by others, in transporting agricultural products from the farms of this Nation and the heavy raw materials of industry.

The only thing we in the waterways industry can hope for in the solution of an admittedly very difficult problem is that the fuel to propel the waterborn transportation industry will be treated fairly and equitably along with the other methods of transportation.

That is all of my prepared statement, Mr. Chairman.

[The full statement of Mr. Smith follows:]

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Statement of

James R. Smith, President, The American Waterways Operators, Inc.

Before the

Senate Committee on Banking, Housing, and Urban Affairs

On the Fuel Shortage

May 7, 1973

*

Mr. Chairman and members of the Committee:

My name is James R. Smith. I am president of The American Waterways Operators, Inc. On behalf of AWO may I express our appreciation for this opportunity to present the following testimony:

The American Waterways Operators, Inc. is a national trade association of operators of towboats, tugboats and barges providing transportation services, ship berthing and harbor work on the navigable waters of the United States. Members operate vessels on the inland waterways and over coastal and seagoing routes on all waterways of the nation. In addition to such carriers, AWO's members include shipyards, water terminals, port authorities, and marine service companies.

As an important segment of this Nation's transportation system, the water transportation industry is deeply concerned over present and growing shortages of the diesel fuel needed to propel this industry. To determine the breadth of the diesel fuel problem on the inland and coastal waterways and to determine the impact of

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present and expected fuel shortages, AWO has created an ad hoc committee consisting of both members and nonmembers. My testimony today is a distillation of this committee's "first cut" at the problem.

In order to appreciate the importance of sufficient fuel to keep the Nation's waterborne commerce moving, let me briefly indicate the size and makeup of this industry. In 1972 the barge and towing industry moved nearly 600 million tons of cargo over some 26,000 miles of inland waterways for a grand total of more than 210 billion ton-miles. This represents about 16 percent of the Nation's total transportation of commodities. This industry utilizes 4,230 towboats and tugs and 19,624 barges of all kinds to move bulk commodities essential to the Nation's economy. Additionally, there is a two-year backlog of orders in shipyards which build barge and towing vessels. There are at least 40 high-powered towboats under construction and scheduled for operation this year plus untold numbers of barges.

As you know, the water transportation industry is singularly well equipped for the movement of bulk commodities and provides the most efficient use of fuel of any of the modes of transportation. The industry's modern equipment transports more ton-miles per gallon of fuel consumed than any other mode. These commodities include chemicals, agricultural products, raw materials of industry, coal, petroleum, and a host of others.

When we speak of the varied commodities moving over the waterways it is important to note that nearly 58 percent of all the

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products moving by water consists of some form of energy for use by others. Coal, lignite, crude and refined petroleum products such as gasoline, diesel fuel, and heating oil are the principal components of this 58 percent. Small wonder then that the towing industry is so concerned over diesel fuel needed to move this energy for others.

An initial staff study of the breadth of the problem, accomplished primarily by telephone contacts with members in various parts of the United States, indicates an ever increasing difficulty in securing sufficient quantities of fuel; present and impending rationing by fuel suppliers; increased prices in most areas; extensive searching and costly retransportation of essential fuel from distant points; as well as occasional tieups of equipment for lack of fuel. Thus far in 1973 the impact of diesel fuel shortages has been spotty on a geographical basis except in mid-continent America, primarily on the Mississippi River System from about Memphis upstream. The situation is most serious in the Midwest from St. Louis north, an area heavily dependent on barge traffic for importation of fuel oil and bulk commodities for manufacturing and for the export of grain. Some tows traveling north from the Gulf Coast have been stranded in the St. Louis area because they were unable to purchase fuel there either to continue upstream or make a return trip. In that area fuel suppliers servicing the towing industry are finding it increasingly difficult to secure sufficient fuel for their customers.

The fact, however, that the industry in that area has not substantially curtailed operations because of fuel is because the

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industry is now operating at less than 50 percent capacity because of the prolonged floods on the Mississippi and its tributary streams. If there is a diesel fuel crisis now, wait until June.

Because of the floods and slowly receding waters, mid-continent farmers are not yet in the fields. Because of high water the outdoor construction industry is nearly motionless. When the floods recede; when the farmers' tractors are running 24 hours a day; when the construction industry, including the highway construction industry, begins to repair and reconstruct after the most devastating flood in the Nation's history, and when the barge industry will be expected to catch up on the movement of delayed shipments, fuel problems of today will be magnified many times over.

The serious consequences to the Nation's economy if waterborne commerce is curtailed by lack of fuel cannot be overemphasized. As I have indicated, 58 percent of the total tonnage our industry moves is energy for others. Of this total tonnage approximately 20 percent is coal to be used as boiler fuel for the electric utility industry. Curtailments of coal movements will cause serious repercussions in the electric industry and will increase demands for distilled petroleum products by those utilities equipped to burn oil and able to find it.

Since petroleum and coal are major inland waterborne commodities, if they cannot move, the "ripple effect" will curtail highway and rail traffic, electric power and a host of consumer production industries.

There are a few additional effects upon the Nation's economy that I should like to call to the Committee's attention. These are

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the effects of curtailment of the movement of waterborne agricultural products and chemicals. I need not remind this Committee of the balance of payments problems which this Nation faces. Agriculture Secretary Butz has recently said that agricultural produce is one of the most notable commodities of world trade which the United States can sell on a competitive basis. Approximately 80 percent of the wheat, corn, soybeans and other bulk grains arriving at the Port of New Orleans for export arrive there by water. Last year the through-put of bulk grains at the Port of New Orleans approximated 20 million tons. Total agricultural product moving on the inland waterways approaches 30 million tons annually. If there is insufficient fuel to move these cargoes, the Nation's farmers and the Nation's international trade posture will suffer.

Curtailment of water transportation service will also slow down the much-needed movement of fertilizer to midwestern farmers for their 1973 crops. Although I am sure that representatives of farm organizations and shippers will emphasize this point, I wish to highlight the significant role which waterborne transportation plays in the movement of agricultural commodities.

A significant portion of waterborne commerce consists of the bulk raw materials of industry. Industrial chemicals are in that category. The effect of a reduction in the movement of raw chemical materials is too complex for easy analysis. Suffice it to say, that jobs, industrial productivity and economic stability in both basic and finished product manufacturing would be felt throughout the Nation's economy.

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Since 1952 records kept by my office indicate that nearly 9,000 major production industries have located on the Nation's navigable water, primarily to take advantage of low-cost barge transportation (average cost three mills per ton-mile).

Mr. Chairman, I have attempted to address in general terms the present status and the expected status and impact of critical shortages of fuel to move those essential commodities carried on our Nation's waterways. It is an understatement for me to say that the barge and towing industry expects a very difficult situation in the months ahead. My purpose has been to dramatize the need for this Nation to recognize the unique role which water transportation plays in the transporting of energy to be used by others, agricultural products and the heavy raw materials of industry so that in the solution of an admittedly very difficult problem the fuel to propel the waterborne transportation industry is treated fairly and equitably.

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Mr. SMITH. Mr. Chairman, may I present Mr. Bernard Goldstein. He may have a word or two which he would like to offer voluntarily, or if you wish, we can wait and he can answer any questions which you care to propound.

Senator MCINTYRE. I would be happy to hear from you, Mr. Goldstein, if you want to add something to what Mr. Smith has said.

Mr. GOLDSTEIN. I thought, in order to bring it into perspective, we could say our problems do not exist later on this summer but they exist right now. We operate six towboats on the Mississippi River and we have been getting our fuel at Davenport, Iowa; St. Louis, Mo.; and Cairo, Ill.

We need about 450,000 gallons a month. Standard Oil at Davenport, Iowa, announced that they will no longer sell fuel oil to towboats.

Our dealer at St. Louis says he can only give us 190,000 gallons a month.

Our dealer at Cairo, Ill. has shut us off almost entirely. We have a situation right now where we are getting less than 50 percent of the fuel we will need.

As soon as the locks open up again on the Mississippi River, we are going to have to operate in order to get that grain moving to the gulf. Without fuel oil, we cannot do it, and the grain bins in Iowa are already filled. If we cannot move the grain down to New Orleans for export, they are going to rot in the fields this fall and our balance of payments is going to rot right with them.

Senator MCINTYRE. Is your dealer just allocating to you what he is allocating across the board to other customers or is he deciding that tugboats are not important?

Mr. GOLDSTEIN. The one in St. Louis got the cut 50 percent from his suppliers, Shell and Clark. Standard Oil at Davenport just announced no more fuel oil for towboats.

They have got to take care of somebody else. The same thing is true for the Mobil Oil dealer down at Cairo, Ill. He has been cut back 75 percent at Cairo, Ill. So they are not getting it and they cannot deliver it to us.

We are not a big company. We are a small company. We do not have influence with the big oil companies. Therefore, we have to do what we can. We do not know where to turn.

Senator MCINTYRE. How small are you?

Mr. GOLDSTEIN. We represent about 5 percent of the barge grain that moves to New Orleans. There is more than $3 billion worth of grain moving to New Orleans from Iowa, Minnesota, Wisconsin, Illinois, and Missouri, and we move about 5 percent of that.

I think we are representative. But we pick up from all the grain terminals along the Mississippi River in eastern Iowa and western Illinois.

Some are big companies, some are small companies, some are coops. We come back then with fertilizer, Florida fertilizer for the Iowa fertilizer people and we also come back up with coal for the powerplants in our area in Iowa and western Wisconsin.

Senator MCINTYRE. Why is it important that we move that grain?

Mr. GOLDSTEIN. If we do not move the grain what are we going to

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do with it? We may as well tell the farmer to forget about planting it if we cannot move it to the customers.

Senator McIntyre. Do you have anything else you want to add?

Mr. Goldstein. One more thing. We will move more ton-miles per gallon of fuel oil than any other method of transportation because of the efficiency of water transportation.

Senator McIntyre. I want to explain to you, the reason for the panel, of course, is in the interest of time, and we have given you an ample opportunity to state the case for your particular industry, which is part of the record, which is what we are really pumping for here this morning.

But I would like to ask generalized questions of the four of you. One is, what difficulty or who do you go to or who would you get in touch with for representative government in this problem, as you see it today, as existing in your industry?

Are you having any difficulty finding out who in industry is the man to see? We will start with the airlines here, Mr. Ignatius.

Mr. Ignatius. I think one of the problems as many people have noted, Mr. Chairman, is there are a lot of people in the executive branch of the government who are concerned one way or the other with the energy problem.

There seems to have been some changes made recently to clarify it and desirably so. In our case, in connection, for example, with the release of in-bond fuel for domestic use, I directed my letter to Mr. Charles Simon of the Treasury Department, who seems to be the one most directly concerned with this. I would say finally that I think it would be very helpful to all of us if further clarifications of executive department responsibility could be made and we could be informed of it.

Senator McIntyre. When you are in a tight situation, which I think all of us are one way or the other and we have said that we are in and expect to continue to be, it helps an awful lot if you can go to a single point to get the problem understood and resolved.

So, I think any further clarification or fixing of responsibility, more importantly informing people where they ought to go, would be helpful.

Mr. Barton, before you answer that question, would you agree generally with what Mr. Smith had to say about agriculture and the movement of grains, and when the flood waters recede there are going to be problems down there—you just heard him say you think you have problems today, wait until June. Do you agree with him?

Mr. Barton. Yes; I agree generally with him. I did not emphasize as much as he did the transportation aspect of the problem—the problems of transporting fertilizer, seed, etc. This is a real problem, and one that is being postponed to a large extent, as he pointed out, by the floods that have kept farmers out of the fields. They are getting into the fields now, and this will be a growing problem.

Again, I did not emphasize the problem of moving grain and agricultural products off the farm at harvest time. We have had tremendous problems generally, not just with barges but with railroads, adequate cars on railroads and so on, to move grain during the past year.

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We made the big grain sale to the Soviet Union last year of some 420 million bushels of wheat. A great deal of that is still to be moved. We are placing greater reliance to balance our payments on agricultural exports. We have net agricultural exports now of several billions of dollars and we are increasingly planting for export.

Furthermore, if we are going to meet the food needs in this country this year—and to do this the Agriculture Department has opened up some 50 million additional acres of land to production this year to increase production of livestock and feed grains going into livestock —the fuel needs of farmers will be increased substantially. If this additional 50 million acres is planted, it would be about a 16-percent increase in land open to field production. We have had about 300 million acres of cropland. This would increase it to about 350 million acres.

Now, on the specific question that you asked, I think farmers tend to go through the Department of Agriculture and to approach other departments and agencies of the Government on fuel problems through the Agriculture Department. This is not the case, of course, with Central Exchange and the larger cooperatives.

In that regard, I would simply add, consistent with what Mr. Ignatius has said, I think there would be some real benefit in clarifying where you go and just who is handling what in the Government.

Senator McIntyre. Mr. Kiley, are members of your association experiencing any difficulty in finding just who in the Federal Government to see about fuel supplies?

Mr. Kiley. You have put your finger on the whole problem: We do not know where to go. When we first went into this situation last year, we went to the only agency we knew. They simply sympathized but they have no authority.

Today we are being asked to keep the Cost of Living Council informed about the prices. This is not our problem. There is no place to go to see to it that we get the fuel we need. This is the very problem of the authorities in our laws today.

This is the question we are getting from our carriers every day: What are we going to do? We cannot force the petroleum industry to supply us, they are unregulated industry, but we have regulated carriers. The Interstate Commerce Commission is the one that would make us perform the service that we have to perform.

I suppose that they are the ones to whom we would complain when we cannot get the fuel to carry out the necessary service. But where do they go?

No, sir, this is the No. 1 problem, as we see it. There is a problem, there is not going to be enough fuel for transportation service but where do you go to get action on it? I think this is the problem that we are faced with.

Senator McIntyre. Mr. Smith?

Mr. Smith. Mr. Chairman, when you put that question a little while ago, I started thinking about where to go for information. Just to list a few, the Office of Emergency Preparedness which is now being broken up; there are several agencies of the Department of Transportation involved in energy and fuel; there are a number of

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different agencies of the Department of the Interior that are involved; the Treasury is involved; Federal Power Commission is involved. CAB is involved relating to the airline industry; OMB is involved; the Domestic Council is involved; Secretary Butz and his new Natural Resources Council, as counselor to the President, is involved. If you should ask me where to go to get answers, I would have to confess that I think the administration and the White House has a problem of getting a handle on where citizens go to get answers and who makes decisions.

It is a very fragmented situation in this Nation of ours today. I think the problem is serious enough that that fragmentation ought to be resolved.

Senator McIntyre. Mr. Kiley, some time ago St. Johnsbury Trucking outfit up in New England, which does a lot of moving of freight and stuff around the New England area where I come from, indicated they were on the spot as to where upcoming supplies of diesel oil or fuel or whatever they wanted were coming from.

I understand from the staff that has been in touch with them that they are living on sort of a month-to-month basis. But if we projected into the future something of what Mr. Smith is talking about, what are you people in trucking going to do? How are you going to operate if you cannot get 40 percent of the fuel that you normally have?

Mr. Kiley. There is going to have to be a curtailment of service. For example, I suppose we would have to petition the ICC that the regulated carrier be temporarily relieved of the requirement not give for regular service. In other words, not schedule daily service to some areas, because we cannot send out a half-loaded truck. We might ask for the right to discontinue serving some points every day, serve them once or twice a week.

It might even come down to the horrible situation of embargoing certain types of traffic. We have not faced that yet but we could. But we will have to go to the ICC because our carriers who are under regulation have certificates which say you must serve these points, you must carry these commodities.

But that is a very real problem. For example, pickup and delivery service would have to be consolidated. It would make an awful lot of people unhappy, but this is what we would have to do if we do not get enough fuel.

If you cut back 40 percent of the fuel, you are going to cut back 40 percent of the service. It is as simple as that.

Senator McIntyre. I think, when you go back to your office, that you had better get your plans going.

Mr. Kiley. We move the great majority, practically all of the petroleum in transportation in the short haul—I am talking now about gasoline—for example moves by highway tank truck.

You would think that they could get it if nobody else can. But they cannot get it in some areas. In many parts of the country our tank truck carriers, because they cannot get adequate supplies of diesel, are unable to make gasoline deliveries.

Senator McIntyre. Mr. Barton, you inferred that your exchange had two refineries and that something like 55 or 60—I do not know,

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you did not give me a figure on how much domestic crude you were depending upon. One of your plants is 45 or 55 percent Canadian. When you go to your domestic producer today, he is beginning, you indicated, to show a lack of interest in you because of the fact that the fees are no longer as valuable as the tickets were a year or two ago, the tickets that your people could give him.

Mr. BARTON. Yes, I indicated that it is increasingly difficult for Central Exchange, for example, to trade tickets, so to speak, with a major oil company that is importing oil, so that the major—let us say it is Gulf Oil Co.—will supply oil that is available in the midwestern area to Central Exchange and, in turn Gulf will import a comparable amount of oil from the Middle East or wherever they are getting the oil. The idea, as I understand it, is the majors are saying with the fee system that has been introduced under the new regulations, it is less profitable for them to import oil and replace their domestic oil that ordinarily would be made available through the tickets to our people in the Midwest.

The general problem is that the Midwestern and Central part of the United States is on the end of the distribution system. When supplies tighten, it is increasingly difficult to get ample oil in this area of the country.

[The following material was inserted:]

RESOLUTIONS ADOPTED BY TEXAS FARMERS UNION BOARD OF DIRECTORS, WACO, TEX., APRIL 28, 1973

FUEL SHORTAGE

Whereas, considerable controversy is now existing in the nation, with housewives concerned with the "high" price of some farm commodities at the retail level;

Whereas, retail fod prices reflect many cost factors throughout the food processing chain, including the rise and fall of farm commodity supplies at the farm gate;

Whereas, the health and well-being of our nation depends upon a steady, dependable supply of farm goods;

Whereas, the supply of farm commodities is being threatened by reputed shortages of diesel, gasoline, and other farm fuels necessary for planting, cultivation, and harvesting of the nation's crops;

Whereas, a serious fuel shortage could bring "exorbitantly" higher prices at the retail food store level, therefore be it

Resolved by the full Board of Texas Farmers Union, That Congress should set aside gasoline, diesel, and other fuel usage priorities with agriculture as having top priority; Be it further

Resolved, Congress should use its authority and pursuasive powers to see that a ceiling is placed on farm fuel prices at a level not to exceed prices on the date that ceilings were imposed on beef prices.

INDEPENDENT FUEL DISTRIBUTORS

Whereas, the nation is faced with an impending energy crisis;

Whereas, this alleged crisis is being used as justification to ration and sometimes refuse to deliver fuels to independent wholesalers and jobbers supplying agricultural areas;

Whereas, the loss of these farm fuel retail outlets will seriously impair the adequate distribution of farm fuels needed to produce the food and fiber necessary for the nation. Therefore be it

Resolved by the Texas Farmers Union Board of Directors, That Congress is urged to initiate an inquiry into the practice by major oil companies of

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discrimination of independents and jobbers in fuel deliveries and scheduling; Be it further

Resolved, That the Texas Railroad Commission investigate this matter with the purpose of guaranteeing equal treatment for fuel distributors in rural areas; Be it further

Resolved, That the Board recognize and endorse the efforts of the association of jobbers in their efforts to gain fair treatment in fuel deliveries and cooperate with them in their efforts to supply agricultural producers needed farm fuels.

Senator McINTYRE. Of the four members of the panel who are here, who deal with obtaining the contracts, you indicated, Mr. Ignatius, that in the contract field you were not having any trouble although there were certain signs on the horizon that you did not like too much as you explained to us about that cost of 1 cent for an increase in jet fuel. But you are not experiencing any difficulty in procuring contracts for the delivery of jet fuel on time, is that right?

Mr. IGNATIUS. No, that is not what I meant to convey.

We have had some problems. They consist of two kinds:

First, last January we had problems getting delivery under existing contracts—this is, what the contracts called for. That tended to be localized and we surmounted it by prompt action.

We are experiencing difficulties in the negotiation of new contracts to replace existing contracts as they expire.

For example, one of the contractual methods that the airlines employ is a requirements contract with the supplier to meet our needs. We have had some problems in negotiating requirements contracts of this kind.

Secondly, we are encountering cost increases that give some bases for believing that we will be having some significant increases in the cost of our jet fuel.

So, we have got both warning signals and actual experience in renewal of old contracts that give us pause, both with respect to sufficiency of the fuel we need, availability of the fuel we need, as well as the price, what it is going to cost us.

Senator McINTYRE. Gentlemen, I do not want to be guilty of leading you in any respect but I am going to ask one more question.

I am going to try to phrase it this way. In your opinion, should not the President begin immediately to use the authority under the Economic Stabilization Act to set up these plans for fuel allocation? What is your feeling on that?

Mr. Smith, do you understand the question?

Mr. SMITH. Yes, sir.

I suspect that some of the members of the American Waterways Operators would say the President should. The question has never been put to the organization and I am in no position to enunciate the policy of AMO.

It has never gone to our board. I would suggest, however, that when and if it becomes unmistakeably clear that the free market system will not operate to keep our industry mobile and in operation that our Board will address that problem very specifically and may come up with a policy declaration which would agree with some of the others here today.

I am not willing, nor able to say that I think we should—at this moment. If we find a pattern in this—it is that there is no pattern.

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There are spot shortages. There are many. They are critical in some areas of the Nation.

In the other areas they are not so bad. There is contract problems. But that, too, is very spotty. Very frankly, I have not detected the kind of a pattern that would make me say, even personally, that this is the moment that the President should act.

Mr. GOLDSTEIN. I would like to answer on behalf of our company.

I believe the President should act immediately—this afternoon.

Mr. KILEY. Immediately. He should act immediately.

Mr. BARTON. We would certainly agree with that, Mr. Chairman. The President should have already acted, among other reasons, because we are losing the independent outlets. Congressmen Les Aspin, I believe just dug up information yesterday that several hundred gas outlets, independent retailers, have already been cut off.

Mr. IGNATIUS. Mr. Chairman, I believe that the administration should act immediately, and I understand has begun to develop a contingency plan for the allocation of fuels and the establishment of a priorities system. I think that is necessary today.

Secondly, based on the information I have, I do not believe that it would be necessary at this point in time to put an overall priority and allocation system into effect, but I believe plans for doing it should be prepared as a matter of urgency.

Mr. IGNATIUS. The administration spokesmen have said that they expect the imbalance between supply and demand over the coming summer to be on the order of 3 or 4 percent and on a more optimistic projection possibly to come out even.

If this is true, what we have, then, will be distribution problems and spot shortages. And I think it is extremely important that the administration look at each of the transportation modes as well as other industries or service of a vital type that require petroleum products and make plans at once to relieve spot shortages as they develop.

One specific remedy in our case is the release of in-bond fuel for domestic purposes. That would remedy an immediate problem. It is like borrowing a cup of sugar from the neighbor until you can go to the market.

In time, we may have a problem that requires more than prompt relief of spot shortages, and in that connection it seems to me we have got to have an overall allocations and priorities plan, and that plan I am told is under development and I believe should proceed as a matter of urgency.

Senator MCINTYRE. Gentlemen, unless there is some one here who feels he has something else to add at this time, I want to thank all of you for coming here this morning and giving us the benefit of your feelings and experiences that you are having with this growing situation with the fuel industry and the fuel supply in the country.

Thank you.

We will now move to our second panel. We call as our next panel Mr. Fred Dunikoski, vice president of Transportation, Greyhound Corp., National Association of Motor Bus Owners, Mr. Carl V. Lyon, general solicitor of the Association of American Railroads and Mr. James E. Terry, Emergency Diesel Fuel Task Force of the American Transit Association.

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STATEMENT OF FRED DUNIKOSKI, VICE PRESIDENT, TRANSPORTATION, NATIONAL ASSOCIATION OF MOTOR BUS OWNERS, CARL V. LYON, GENERAL SOLICITOR, ASSOCIATION OF AMERICAN RAILROADS, AND JAMES E. TERRY, EMERGENCY DIESEL FUEL TASK FORCE OF THE AMERICAN TRANSIT ASSOCIATION

Senator McINTYRE. I am glad to welcome you all here this morning and we will proceed in the fashion that we already have, trying to hold your statement in the vicinity of 10 minutes.

Then at the conclusion of the three witnesses, we will have a few questions for you. We are mainly concerned in trying to build a record as you people are experiencing it today with this problem.

We call on Mr. Fred Dunikoski of Greyhound, representing both Greyhound and the National Association of Motor Bus Owners, to start off the proceedings.

Mr. DUNIKOSKI. If I may be permitted, at my left I have Mr. Arthur Mitchell, who is vice president of purchasing for the Greyhound Corp. He is not to give testimony unless it is a question that is asked of me that I do not have the technical information and he is merely here to assist the committee should they want some additional answers I am not able to provide.

Senator McINTYRE. We are glad to welcome him here.

Mr. MITCHELL. Thank you.

Mr. DUNIKOSKI. I do have a statement which I would like to introduce into the record in its entirety. In addition to that, I would like to summarize in some areas or expand some of the comments I make.

Also, if there is anything that I do not have available in answer to the committee's questions, I would be most happy to provide to the committee at a later date this information.

Sir, I am Frederick Dunikoski. I am vice president of transportation for Greyhound Lines, Inc., the worlds largest intercity bus company.

I very much appreciate this opportunity to appear before the committee on behalf of both Greyhound and the National Association of Motor Bus Owners to discuss the bus industry's concern about the energy crisis.

First of all, let me try to position the intercity bus industry in this country. For hundreds of thousands of Americans, the bus is the only means of transportation, public transportation available.

Most smaller and rural communities do not have either commercial airports or passenger train stations. But Greyhound and approximately 1,000 other intercity bus companies serve almost every village and hamlet in this country.

During 1972, the bus industry carried 387 million passengers over 267,000 miles of routes. The industry operated 1.8 billion bus miles, transporting passengers a total of 25.6 billion passenger miles. I recite these statistics to give an impression of the importance of the bus industry to the transportation of Americans.

But transportation is essential not only for the movement of people, but also for the transportation of packages—small packages—throughout the Nation.

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For example, the bus industry each day transports vital blood plasma, drugs and medications to hospitals and doctors in locations where no other form of public transportation is available to handle this service.

Small business in many of these communities rely on us totally and completely for furnishing them with service, parts, replacement parts and inventories—by bus, that they could not get through any other form of transportation.

In addition to that, in relation to the importance of conserving energy, I would like to make a few remarks about the efficiency of intercity buses in the utilization of energy as compared to other forms of transportation before I provide you with more specific detail regarding Greyhound's experiencing in obtaining fuel supplies.

A publication "Energy Intensiveness of Passenger and Freight Transport Modes: 1950–1970" published April 1973, by Eric Hirst, a study sponsored by the National Science Foundation, buses were found to be the most energy-efficient mode for intercity passenger travel. Energy requirements for the four most common traffic modes were found to be as follows:

Buses obtain 85 passenger miles per gallon of fuel, while railroads get 48 passenger miles, automobiles 40, and jet aircraft only 16.

The report also indicates that pollutant emissions from intercity buses, on an average per-passenger-mile basis, are about 45 percent less than emissions from diesel-powered intercity passenger trains.

I cite these figures so that the committee can recognize the importance of an adequate supply of fuel for the intercity bus industry in terms of keeping the vital American public transportation system working at peak efficiency.

I have read much about the present energy crisis, but I do not feel qualified to discuss the causes or solutions to this serious national problem.

I can only relate the experience of Greyhound and other bus companies in terms of our ability to obtain the needed supply of diesel fuel to keep our buses rolling as expected by the American public.

Again, to furnish some perspective, let me inform you that Greyhound used nearly 80 million gallons of diesel fuel in 1972. We purchase fuel in more than 100 locations from over 10 suppliers, mostly national companies. Let me also say that this only represents Greyhound's transportation activities and does not include any of the requirements of other parts of the diversified Greyhound Corp.

Beginning early this year, there have been shortages and resulting rationing by our suppliers that have already had an effect on Greyhound's operations and represent a serious potential threat to the Nation's transportation system.

In January of this year I repeat, we were rationed in the supply of fuel. Early in January, two of our suppliers, American Oil and

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Texaco, arbitrarily began to ration our fuel supplies. In the case of American, we were allotted 80 percent and Texaco allowed us 75 percent. We know of other bus companies who had contracts with oil companies that expired during the year and their suppliers refused to renew contracts and other suppliers would not even submit bids.

In one case I am personally familiar with, a carrier whose contract expired this year, none of the major companies would come forth with a bid. They were required to go to a local refinery, and their fuel costs were increased over 50 percent in their new contract as opposed to the contract that expired.

I relate this to you because this is what is prevailing today in the bus industry.

While I do not specifically relate to costs here today in my statement, I do want to point out that the costs are increasing tremendously and the people who are going to suffer will be the people who are using our bus, and in many instances these are people who do not have automobiles or cannot drive, either because of their age or because of their health or some other reason.

These are the people who are going to suffer with these increased costs, whereas I have not made costs a primary issue in my statement.

As I point out to you, in January they started rationing our supply. All this was happening while there was no rationing whatever of gasoline for pleasure purposes. Although esentially public carrier transportation was having difficulty in obtaining needed fuel, you could easily find a gas station that would fill your car without restriction.

Senator McIntyre. Were gas stations closing around you?

Mr. Dunikoski. In some areas; most of them independents, sir. Actually, gasoline sales were being encouraged with giveaways, at the same time——

Senator McIntyre. What do you mean by giveaways?

Mr. Dunikoski. Giveaways of items when you were purchasing gas—glasses, trading stamps and other forms of gifts to encourage sales of gasoline.

Senator McIntyre. Who was doing this?

Mr. Dunikoski. Many major suppliers. They are doing it today. Right today you can go down to many of your major suppliers, they are encouraging the sales of gasoline through giveaways, through use of trading stamps as an incentive to purchase gasoline—even today, when everybody at the panel preceding me and I assume people following me will recite difficulties in obtaining fuel. As a result of this rationing, we experienced shortages at Chicago, Washington, D.C., and New York.

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Fortunately, we were able to obtain the necessary fuel from other sources, but we are well aware that the day may be approaching when there will be no other sources to turn to when our regular contractual supplier reduces our allotment.

More recently, we have been notified by some suppliers that we will be placed on an allotment based on a percentage of fuel each month corresponding to one-twelfth of our average annual use in 1971.

Not only does this reduce the total amount of diesel fuel that will be made available to Greyhound but it does not take into account the fact that our fuel needs are significantly greater in the summer months than during much of the rest of the year. We have no capacity to store large quantities of fuel during the winter months to have it available during the summer.

What is at issue here is the fact that the oil companies are taking the responsibility of determining whether public carrier service will be available to cities and towns throughout the United States. Today bus companies have a responsibility to provide service as regulated by the ICC and various State commissions. Through these agencies the public is assured of dependable, low-cost transportation.

The oil campanies, through their rationing of fuel, adopted an attitude that they, not Government regulatory agencies, will determine whether and where service will be provided. They have, in fact, established themselves as the regulatory body that determines who gets the fuel and how much they will supply. There is no question that if the fuel companies reduce or terminate the bus industry's fuel supply, a reduction or termination of bus service will follow.

This is a very real and positive threat that we believe requires immediate action. The intercity bus industry believes that Government and not the oil companies should continue to determine what the level of public carrier service should be or whether there should be any at all.

We strongly support legislation—and we strongly support the position taken by you in your letter to the President today—to enable the Government to set the priorities for the available supply of fuel rather than leaving such essential public decisions to the oil companies.

We believe firmly that the energy crisis has a potential for causing great disruption of the American way of life and we urgently hope this committee and the Congress will accept the responsibility of determining the most essential priorities in providing public transportation through the judicious alocation of the available fuel supply.

I appreciate the opportunity to make this presentation, and I hold myself available for any questions.

[Full statement of Mr. Dunikoski follows:]

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TESTIMONY OF

FREDERICK DUNIKOSKI

VICE PRESIDENT, GREYHOUND LINES, INC.

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In relation to the importance of conserving energy, I would like to make a few remarks about the efficiency of intercity buses in the utilization of energy as compared to other forms of transportation before I provide you with more specific detail regarding Greyhound's experiences in obtaining fuel supplies.

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> Buses obtain 85 passenger miles per gallon of fuel, while railroads get 48 passenger miles, automobiles 40, and jet aircraft only 16.

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I cite these figures so that the Committee can recognize the importance of an adequate supply of fuel for the intercity bus industry in terms of keeping the vital American public transportation system working at peak efficiency.

I have read much about the present energy crisis, but I do not feel qualified to discuss the causes or solutions to this serious national problem.

I can only relate the experience of Greyhound and other bus companies in terms of our ability to obtain the needed supply of diesel fuel to keep our buses rolling as expected by the American public.

Again, to furnish some perspective, let me inform you that Greyhound used nearly 80 million gallons of diesel fuel in 1972. We purchase fuel in more than 100 locations from over 10 suppliers, mostly national companies. Let me also say that this only represents Greyhound's transportation activities and does not include any of the requirements of other parts of the diversified Greyhound Corporation.

Beginning early this year, there have been shortages and resulting rationing by our suppliers that have already had an effect on Greyhound's operations and represent a serious potential threat to the nation's transportation system.

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Early in January, two of our suppliers, American Oil and Texaco, arbitrarily began to ration our fuel supplies. In the case of American, we were alloted 80 per-cent and Texaco allowed us 75 per-cent. We know of other bus companies who had contracts with oil companies that expired during the year and their suppliers refused to renew contracts and other suppliers would not even submit bids.

All this was happening, of course, while there was no rationing whatever of gasoline for pleasure purposes. Although essential public carrier transportation was having difficulty in obtaining needed fuel, you could easily find a gas station that would fill your automobile without restriction.

As a result of this rationing, we experienced shortages at Chicago, Washington, D.C. and New York. Fortunately, we were able to obtain the necessary fuel from other sources, but we are well aware that the day may be approaching when there will be no other sources to turn to when our regular contractual supplier reduces our allotment.

More recently, we have been notified by some suppliers that we will be placed on an allotment based on a percentage of fuel each month corresponding to one-twelfth of our average annual use in 1971.

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Not only does this reduce the total amount of diesel fuel that will be made available to Greyhound, but it does not take into account the fact that our fuel needs are significantly greater in the summer months than during much of the rest of the year. We have no capacity to store large quantities of fuel during the winter months to have it available during the summer.

What is at issue here is the fact that the oil companies are taking the responsibility of determining whether public carrier service will be available to cities and towns throughout the United States. Today, bus companies have a responsibility to provide service as regulated by the Interstate Commerce Commission and various state commissions. Through these agencies, the public is assured of dependable, low-cost transportation.

The oil companies, through their rationing of fuel, have adopted an attitude that they, not government regulatory agencies, will determine whether and where service will be provided. They have, in fact, established themselves as the regulatory body that determines who gets the fuel and how much they will supply. There is no question that if the fuel companies reduce or terminate the bus industry's fuel supply, a reduction or termination of bus service will follow.

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This is a very real and positive threat that we believe requires immediate action. The intercity bus industry believes that government and not the oil companies should continue to determine what the level of public carrier service should be or whether there should be any at all. We strongly support legislation to enable the government to set the priorities for the available fuel supply rather than leaving such essential public decisions to the oil companies.

We believe firmly that the energy crisis has a potential for causing great disruption of the American way of life and we urgently hope this Committee and the Congress will accept the responsibility of determining the most essential priorities in providing public transportation through the judicious allocation of the available fuel supply.

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Senator McINTYRE. Thank you very much.

We call as our next witness as a member of this panel Mr. Carl V. Lyon, general solicitor of the Association of American Railroads.

Bear in mind, Mr. Lyon, any place you can help us in paraphrasing those parts of your statement that lend themselves to it, we would appreciate it. On the other hand, I want you to feel perfectly free to testify in any manner that suits you and you feel presents your case the best.

STATEMENT OF CARL V. LYON, GENERAL SOLICITOR OF THE ASSOCIATION OF AMERICAN RAILROADS

Mr. LYON. I am going to try to be very brief. I would request that you include my complete statement in the record, and I will go forth from that point (see p. 121).

My name is Carl V. Lyon. I am general solicitor of the Association of American Railroads.

We represent the railroads which operate 99 percent of the trackage, 98 percent of the workers and 99 percent of the revenues of all class 1 railroads in this country and that is practically all of them.

Railroads are no different than the other witnesses you have heard today, Mr. Chairman. We are all in trouble as to fuel. Each week presents a new challenge, a new problem, for one of our members of where to find the oil, the diesel fuel supply, to meet his transportation needs.

We have been living off our storage supplies, although storage supplies are now substantially depleted. We have gone to Canada to purchase oil and transported it in tank cars all the way across the Nation in some cases.

Railroads have purchased entire ship cargoes and shared them among railroads to make oil available in places where railroads' storage supplies have runout.

We have run into situations where major suppliers on whom we rely principally have told us that our new contracts would be at 25 percent lower levels than previous years and they have been unwilling to enter into anything but very short term contracts for renewals.

This is in the face of business this year at levels 10 percent higher than last year. Where we are supplied by small jobbers, we have been unable in some cases to be supplied at all and in many cases a very sporadic supply.

Now, railroads consume only about 2.5 percent of the total consumption of petroleum fuel in this country. So, if one is to look for a way to save oil, there is no solution in trying to save it in the railroad business because you could take it all and you would still have a major energy and fuel oil problem. The impact of such action would be much greater than 2.5 percent, however, because of the dependency of the Nation and the Nation's economy upon rail transportation for basic kinds of transportation in basic commodities.

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For example, we move large amounts of coal to electric generating facilities. I am sure you have heard about the vital transportation of grain and the other agricultural commodities that we transport.

There have been three hearings before the Senate and House already this year about the massive demands made on rail transportation this year with respect to utilization of our car supply. Any loss of oil or inability to obtain oil will tie up the entire system and it can not be tolerated.

We haul lumber, paper, chemicals, ores—all these things are basic commodities such as would have an adverse effect pyramiding into other things and resulting in unemployment and idle factories.

I have been attending many meetings on this subject, and I am convinced that the supply is not going to meet demand in the short run, that demand is increasing—will continue to increase.

I want to congratulate this committee and the Senate in insisting on adding the power to allocate and set petroleum priorities in the Economic Stabilization Act extension. I think it is very important that such power was added.

Last winter I think it was somewhat foolish for public transportation and heating people to be going without fuel when I and my three sons could go down to the gasoline station and purchase all the gasoline we wanted but this was precisely the case.

In answer to the question you posed to the previous panel, the President should assure himself now—today—that needs for public transportation, for heat, for farms, and essential uses will be met.

I am not sure that the total use of his power is necessary at this time but I do believe he has to make the decision now for adequate production of distillate so that when this winter comes, there will be ample supplies of the kinds of fuel that are necessary, because you can not switch back and worth at will between gasoline and distillate from which heating oils and diesel fuels come.

Railroads can not use anything but diesel fuels. For this reason, I think they should get some preference in these priorities.

Many utilities and industries can convert and actually have substantial standby facilities for returning to coal.

This means that some coal must be used. I think that this nation has to start reevaluating and rebalancing some of its national interests and consider what its speed in attaining some of its environmental goals is doing to some of its other goals.

I think some of these decisions are going to have to be reevaluated and our goals set in a new light. This would mean slowing down in reaching some of these goals, no matter how great the goals are, and we certainly agree they are great ones.

Mr. Chairman, we appreciate the opportunity to appear here and we will respond to any questions that we can.

(The full statement of Mr. Lyons follows:)

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May 7, 1973

STATEMENT OF CARL V. LYON
GENERAL SOLICITOR
ASSOCIATION OF AMERICAN RAILROADS

BEFORE THE SENATE COMMITTEE ON
BANKING & CURRENCY
ON THE IMPACT ON THE NATION'S ECONOMY
OF PREDICTED SHORTAGES OF PETROLEUM PRODUCTS

My name is Carl V. Lyon. I am General Solicitor of the Association of American Railroads.

The railroads which are members of the AAR operate 99 percent of the trackage, employ 98 percent of the workers and produce 98.9 percent of the revenues of all Class I railroads in the Nation.

My purpose here is to emphasize to this Committee what is happening in the railroad industry today and more particularly what could happen if the short term aspects of the fuel problem are not solved or corrected. I also wish to emphasize that the impact on railroads and other public and essential transportation services would result in an even greater impact on the Nation's economy and welfare than on the transportation services alone. Additionally, the experience of this present and immediate past situation forcibly points up the very serious implications of the long-term energy problem.

While railroads consume a relatively small proportion of total fuel supplies, the service provided with that small amount of fuel is absolutely essential to large parts of the Nation's economy and the failure to provide a full allocation of fuel oil to railroads will have an impact of far greater magnitude than the relatively small amounts of fuel railroads use would seem to indicate.

Railroads have been seriously affected by the present fuel shortage. Beginning early in December, 1972, deliveries of diesel fuel oil to railroads were sharply curtailed. Some of the principal

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suppliers have limited their deliveries to the railroads by cutting back 25 percent from their commitments. Others have limited their deliveries to the quantities supplied for the same period last year. It should be pointed out that the fuel allotments based on last year's traffic would be insufficient to carry the present volume of traffic which is running at this time 8.4 percent ahead of the corresponding period a year ago. Some other suppliers have discontinued all deliveries at certain points. Initially the greatest impact was felt in the mid-section of the country, generally between Chicago, the Mississippi River and the Rocky Mountains. Some curtailments were experienced in the East in New England and in the Central South.

The problem is continuing and is particularly acute in the middle section of the country where the railroads are experiencing an extremely heavy traffic in grain. As time goes by, the railroads are expending their limited supplies and replacement fuel is not equaling the rate of consumption. During the winter months some of the roads found it necessary to reduce horsepower and speed in order to stretch their remaining supplies. This created some terminal congestion and interfered with the normal flow of empty cars to loading points.

In order to meet this problem, the railroads have exhausted every possible avenue to help themselves, to obtain fuel from new sources, and to relocate such reserves as existed either with their own tank cars or by leasing whatever tank cars are available. It has been possible to secure some fuel from Canada and, of course, necessary to move the oil great distances. We have been working closely with the Office of Emergency Preparedness, the Interstate Commerce Commission and the

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Department of Transportation in an effort to make additional supplies of diesel oil available to the industry in the most critical areas.

The railroads are a significant factor in the distribution of energy. There is still an important movement of coal to utilities and industrial plants and a large movement of liquefied petroleum gas for heating and industrial purposes. Fuel shortages sufficient to reduce railroad capacity will interfere seriously with the distribution by railroads of fuels and will further compound the present energy shortage. Along with the heavy movement of grain for export, there is a heavy demand for cars for animal and poultry feed grains, fertilizer, lumber, and basic commodities generally. It is important that the capacity of the railroads to meet these demands not be further reduced.

Subcommittees of the Senate Agriculture Committee, the Senate Commerce Committee, and the House Committee on Interstate and Foreign Commerce have all held hearings during the past several weeks concerned with the critical problem of freight car supply and utilization with particular emphasis on the extremely heavy grain movements. Repeated references were made by the numerous witnesses that any failure to move the crops already backed up for movement would result in disaster to a number of farmers and grain elevator operators alike. This situation started to build up as a result of a number of factors including the lateness of the grain crop, the release of Commodity Credit Corporation grain from storage, and an unprecedented amount of export grain moving to ports for transshipment to Russia. It was made quite clear during the course of these hearings that this tremendous demand upon railroad transportation service will continue during a large part of the rest of

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the year and perhaps longer. It is clear beyond any doubt that a significant reduction in railroad service (which must have a very adverse effect on car utilization and car supply) even for a brief period of time will have an immense and perhaps tragic effect not only on farmers and elevator operators but also on lumber producers, building and construction industries, foods and kindred products, etc. These factors, if permitted to occur, can only result in worsening price problems in the general market. We can conceive of no way that any significant reductions in service can be made as a result of lack of fuel or any other reason without having a most critical adverse impact upon a large segment of the Nation's economy.

It is very difficult to arrive at specific conclusions with respect to this matter. We have nevertheless arrived at some tentative ones which I should like to discuss at this point.

The recent energy policy statement of the President seems generally to come to grips with the long range energy problems. However, we have a problem now -- this year and the next two or three years -- and the President's statement leaves that matter without significant solutions. On April 26, 1973, the Office of Emergency Preparedness released a survey of Fuel and Energy Problems for Spring and Summer 1973. Its report had been prepared by the Joint Board on Fuel Supply and Fuel Transport consisting of representatives from numerous governmental agencies. In the summary statement it is said that:

> "reports have been received from numbers of users that they are having great difficulty obtaining diesel fuel. Diesel fuel supplies are reportedly being allocated in almost all parts of the country and to all classes of volume users."

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This is certainly an accurate comment with respect to prevailing conditions in the railroad industry. In short we are experiencing the problem today and every indication points toward a worsening next fall and winter.

Railroads had extreme difficulty during the past winter in obtaining adequate fuel to run their diesel locomotives and last winter was a very mild one. Now that winter is over railroads continue to have difficulty in obtaining adequate supplies. No one can predict next winter's weather but heating oils come from the same supply of distillate which provides diesel fuel for railroad locomotives and railroads today are unable even with long, well established, continuing dealer relationships to obtain commitments for deliveries for the future beyond a few months in advance. According to the OEP Survey "overall, demand for distillate for 1973 is estimated to be 5.8 percent greater than 1972." The factor that saved the railroads this past winter was their reserve fuel supplies, now largely depleted. With railroad traffic presently running almost 10 percent higher than 1972 levels it is virtually impossible to build up diesel fuel supplies looking toward winter demand. We are, therefore, vitally concerned about our inability to obtain today anything more than bare need current supply with no commitment for tomorrow.

The OEP report emphasizes voluntary conservation. Railroads have fully explored this approach and are already engaged in conservation practices that will not adversely affect car utilization and car service. There is no panacea there except to have a serious adverse effect upon the Nation's economy generally by failure to provide service.

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We are gratified to note the passage by Congress, at the insistence of the Senate in its version of the Act to Extend and Amend the Economic Stabilization Act of 1970, granting the President the power to establish priorities of use and for systematic allocation of supplies of petroleum including crude oil. In our judgement it may become necessary for the President to exercise his authority to establish such priorities and allocations of supplies if the voluntary conservation methods and operation of the market place fails to provide constructive and sensible programs of distribution in the public interest. Should such priorities and allocations become necessary we are convinced that they must favor public transportation.

Railroads, for example, should be given priority in fuel supply distribution or allocation for the following reasons:

1. The distribution of fuel for utilities and industry as well as home heating is dependent on near normal operation of the railroads. Railroads are the principal carriers of coal used in the production of electricity and a substantial factor in the distribution of LPG used for home heating and commercial purposes. Any curtailment of this transportation will seriously compound the fuel shortage.

2. The functioning of many other parts of the national economy depends on adequate provision of rail service. Railroads provide over 60 percent of the transportation for grain, cotton, lumber, paper, chemicals, new automobiles, household appliances and canned and frozen foods. Any significant interruption in this flow would cause industrial shut-downs and a rapid increase in unemployment.

3. Volume of essential traffic moved under both paragraphs 1

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and 2 are such that substitution of any other transportation service is virtually impossible.

4. Allocation of the additional amount of diesel fuel required by the railroads would have relatively small impact since it would represent less than one percent of the total distillate supply or the equivalent of two tenths of one percent of the output from U. S. refineries.

5. Railroads can only use diesel fuel, and they should have preference over those distillate users which can turn to other fuels. Many public utilities and industries, for example, can use coal or a variety of distillates and residual oil.

6. Where, as here the establishment of priorities becomes necessary, the maximum benefit to the nation's economy and general welfare can be achieved with the least amount of Governmental direction and greatest beneficial impact by granting priority to railroads whose efficiency in terms of fuel consumption is far superior to that of other transportation modes except in the limited areas where water transportation is available.

Although railroad diesel engines burn about 4 billion gallons of fuel oil annually, this volume represents only 2.5 percent of the annual national consumption of petroleum fuels. */ While the impact on the Nation's economy of a failure to provide that 2.5 percent would pyramid into other industry and be catastrophic it is clear that such use in relation to total consumption is so modest that any attempt to conserve by cutting back markedly in railroad use would be nonproductive and shortsighted.

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*/ Exhaust Emissions from Diesel Locomotives, Sub-Council Report, National Industrial Pollution Control Council, April 1973, p. 9.

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There is one other short term approach that cannot be overlooked indefinitely due to the gravity of the impact of the energy shortage. It involves the return to use of coal for some purposes, primarily for the production of energy by utilities. I recognize the tremendous importance of environmental considerations to our Nation and railroads are committed to improving the environment in numerous ways. But the impact on our Nation's economy of the developing energy crisis is so serious that a reconsideration and rebalancing of our various interests and the speed with which we attempt to achieve our environmental goals must be considered in this light.

The President's recent message concerning energy resources addresses this problem commenting that our concern for the "general welfare" or national interest should take into account considerations of national security and economic prosperity, as well as our environment. It also calls for carrying out the provisions of the Clean Air Act in a judicious manner without moving in a precipitous way toward meeting secondary standards of that Act, then we should be able to use coal of up to 155 million tons per year which would otherwise be unusable.

There are vast coal reserves available in the United States. In order for them to be used, however, there must be a commitment that they will be permitted to be used over reasonably long periods of time before the long-term capital investment required for its production and reconsideration of utility steam plants to coal firing is feasible and can be expected. Likewise a significant upturn in production of coal of the kind necessary to make an impact on the energy problem would require additional capital investment for freight cars and locomotives to

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transport the coal to market which also would not be justified without some reasonable long-term commitment to a program.

I believe a reasonable balancing of national interests requires a prompt return to use of coal in certain circumstances. We should make this decision now because the passage of time will only make the need greater and the possibility of overcoming the problem more difficult. Along with such use must be a greater commitment to elimination of adverse environmental effects of such use.

The problem is here; it is now. Long-term solutions are on the way but satisfactory short-term and prompt answers are lacking. They must be found and placed in effect.

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Senator McINTYRE. Thank you, Mr. Lyons.

We will call on Mr. James E. Terry, general counsel to the Cleveland Transit System and a member of the American Transit Association diesel fuel task force.

STATEMENT OF JAMES E. TERRY, GENERAL COUNSEL, CLEVELAND TRANSIT SYSTEM

Mr. TERRY. Mr. Chairman, thank you.

First of all, I would like to indicate that Mr. James J. Slowey of the New York Transit Association is the chairman of our emergency task force and I am the legal adviser.

Mr. Slowey was unable to be here and I am sort of pinch-hitting for him. I hope you will bear with me with my restrictions in that regard.

I would like to also incorporate our prepared statement in the record, if you please, Mr. Chairman and I would like to digress as to a few points to indicate some of our experience in the transit industry with which I am personally familiar—what occurred in the city of Cleveland last Friday when we attempted to get a contract for diesel fuel and our bids were open.

At the outset, sir, I wish to indicate that our task force represents the members of the American Transit Association, carrying both the rail and bus methods of transportation, over 85 percent of the individuals who use public transportation throughout the country.

I want to digress a minute to indicate that our statistical department has indicated to me that that represents some 6.5 billion rides annually or approximately 10 million rides daily.

Those are rides as distinguished from riders, because it would include transfer individuals.

We are appreciative of the work that has been done by your committee through Senator Harrison Williams and past considerations that have been given to the transit industry.

The industry has adopted the fact that the Nation's cities are being strangled by the twin ills of congestion and pollution and it is indeed true that we find another malady, essentially the energy crisis adding to our problems.

The energy crisis is spreading and affects the transit industry in an increasingly severe manner. In the past months almost all of the transit systems in the Midwest, including the region from Indiana and Illinois through Colorado report serious fuel problems. I wish to point out a few of them.

The transit systems in the Southeast, including Florida, North and South Carolina as well as New England have also received: (1) curtailment notices, (2) refusals to bid by any supplier of diesel fuels or, (3) drastic increases in prices.

I might add, as did Mr. Lyons who previously testified, that some suppliers have gone to Canada to seek supplies of diesel fuel as was the instance in the Minneapolis-St. Paul Transit Authority.

Senator McINTYRE. Those transit companies managing somehow to get around this crisis—they are still in business, are they not?

Mr. TERRY. Yes, sir.

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However, if you want me to indicate—I just was going to get to that—the experience that some of the properties have been involved in.

We were in Atlanta this last week and the Metropolitan Atlanta Transit Authority, after negotiating with the Gulf Oil Co. for a period of some 6 months, finally were able to secure a contract at an increase of, as I recall, approximately 3 to 4 cents-per-gallon of diesel fuel.

They had not indicated to them in the past that they were going to get a contract. As a matter of fact, they allowed their contract to expire. They gave them an extension on a 30-day basis.

The Metropolitan Atlanta Transit Authority is expanding rapidly. You may be familiar with the fact that they had a reduction in their fare. Their ridership increased. They hope to expand their bus fleet —almost double, and it is a situation in which they were very sincerely apprehensive as to what their requirements would be in the future.

They received no consolation from the Gulf Oil Co. at that time. I do not wish to single out the Gulf Oil Co. but just to indicate that this was the one which was involved with Atlanta.

I might add, sir, with regard to our individual situation in Cleveland, we were told by our supplier, the early part of this year that they would be able to include our contract requirements. They did not give us any assurances that they would bid in the future.

Therefore, our contract expires in August of this year and we went out for bids. We had one bidder, which was our contract supplier and it was at a 37-percent increase in price.

We went out for 5.5 million gallons. Which was our estimated annual requirements. They made a firm bid of 5 million gallons, and also, I will not read it but they attached a 2-page legal disclaimer which in effect said, without going into the lawyer's language, that we have a contract but we do not have a contract if we do not want to deliver the diesel fuel to you.

Essentially, it was a 30-day contract cancellation clause. They have additional provisions in there. If there were variables involving certain delays in the fuel, whether they had control over it or not, they would not be responsible and various other items which made it virtually—made us virtually at their mercy in so far as the obtaining of diesel fuel was concerned.

Our board has not acted on this as yet but this is the type of bid which we are receiving.

Senator McIntyre. In Cleveland, to absorb that 37-percent increase cost, do you go to the State or do you have a city O.K. on increasing your rates?

Mr. Terry. No, sir, we do not. In Cleveland, we are unique in the transit industry. We are still operating out of the fare box. We are not proud of that factor, but our organization was set up in 1942 by a charter mandate of the Citizens of the City of Cleveland which mandated that our fares must be sufficient to cover the operation and maintenance, which includes our debt service, bonding expense, and our labor costs.

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I might add since I have been with them in the past 4 years, the fare has never covered our operation and maintenance.

We have operated at a deficit. Our deficit is advancing now, very small compared to a number of others, but it is advancing to about $5 million as distinguished from a $30-million annual revenue.

So, we are in a situation now whereby any additional increased cost we have to pass that on to the rider by way of increased fares which is self-defeating, sir.

Senator McINTYRE. You have to increase your fare.

Mr. TERRY. Yes. We are mandated to do so by our enabling legislation.

These increased expenses, as I previously alluded to, can only lead to an unavoidable service cutback and fare increases that experience has shown to be self-defeating and counter-productive to the public's best interest.

I might add also there was a study in the city of Cleveland with regard to the use of automobiles and the use of buses as distinguished from diesel fuel and gasoline.

In this study, which was done by our research department, I just want to point out this. It was indicated that an expressway lane moves approximately 1,500 vehicles per-hour during the peak hours of traffic.

Assuming that only 50 percent of these people would arrive in the downtown area during the morning rush hours, it would take an additional 26 lanes of expressway to accommodate them.

This indicates Cleveland experience only. These additional 26 lanes could not be built because, in fact, we do not have the land and the area to build them. An internal combustion engine which burns gasoline releases approximately 8 times more pollution than a diesel engine. It is then for these reasons that the industry has requested that there be some establishment as you are suggesting, sir, of allocations and priorities to the various industries relative to any diesel fuel shortages which may result.

I might add, sir, that the task force did pass a resolution last week, I will not recite the whereas clauses because they are part of the record, but it basically resolved that the American Transit Association be recorded as urging the President, the Congress of the United States and the petroleum industry in the United States to take appropriate action to assure mass transportation systems an adequate full supply available at a reasonable cost, and further that the same individuals and associations be urged to alleviate the fuel crises by assuring adequate supplies of reasonably-priced fuel to the transit industry on a priority basis for the purpose of maintaining and increasing the operating capabilities of public transportation facilities.

I might add, Mr. Chairman, that I appreciate the opportunity to appear here and I only wish that some of our experts in the field might be here.

But I will attempt in whatever way I can to answer whatever questions you may have, sir.

Thank you.

[The full statement of Mr. Terry follows:]

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Statement of the American Transit Association before the Senate Banking, Currency and Urban Affairs Committee regarding the Economic Stabilization Act Amendments of 1973. Presented by James E. Terry, General Counsel to the Cleveland (Ohio) Transit system and member of the American Transit Association Diesel Fuel Task Force, May 7, 1973.

Mr. Chairman, I am James E. Terry, General Counsel to the Cleveland Transit System and a member of the American Transit Association Diesel Fuel Task Force.

I appear today in behalf of the American Transit Association.

Members of the American Transit Association, representing both rail and bus modes of urban transportation, carry over 85% of those who use public transportation throughout the country.

Mr. Chairman, the transit industry is grateful for the opportunity to once again appear before the Senate Banking, Currency and Urban Affairs Committee.

It has been through your committee and the able work of New Jersey's Senator Harrison A. Williams, Jr. that many of the ways and means of upgrading public transportation throughout the country have been provided.

Through your Committee the Urban Mass Transportation Assistance Act of 1970 was generated and passed.

Just last March an amendment offered by Senator Williams passed the Senate that would, if signed into law, provide the necessary elements to allow the nation's cities to get moving again through upgraded and extended public mass transportation.

We appreciate past considerations, and look forward to continuing to work with you to solve the nation's mass transit woes.

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In the past we have documented the fact that the nation's cities are being strangled by the twin ills of congestion and pollution.

This is indeed true, but now we find that a third malady, namely the energy crisis, has been added to that unholy twosome.

That we are all here today is indicative of the great concern over the nation's rapidly dwindling supply of fuel.

The energy crisis is spreading, and its effects on the transit industry are becoming increasingly severe.

In the past months almost all transit systems in the mid-west including the region from Indiana and Illinois through Colorado report serious fuel problems.

Transit systems in the Southeast including Florida and North and South Carolina as well as New England have also received:
(1) curtailment notices, (2) refusals to bid by any supplier of diesel fuels, or (3) drastic increases in prices.

The dwindling diesel fuel supply has forced some transit properties to borrow from others; has forced another property, namely Minneapolis-St. Paul, to seek supplies from Canada, and at a drastic increase in cost.

That property now is working on a scheme to barge fuel up the Mississippi from New Orleans, a colorful solution perhaps, but somewhat impractical.

An isolated example?

Hardly.

Fuel suppliers throughout the country are balking at bidding on transit industry contracts, or bidding at drastic price increases-

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up to 53% for diesel fuel and 67% for gasoline.

The system reporting these increases is the Boston-based Massachusetts Bay Transportation Authority (MBTA).

The increase will add $478,000 to MBTA's operating costs over a one-year period.

The Washington Metropolitan Area Transportation Authority, along with several other systems, reports an increase of more than 30% over previous bids.

The Metropolitan Atlanta Regional Transportation Authority has just negotiated a one year contract calling for a 20% increase.

The transit property in Syracuse, New York reports that it received only one bidder out of 16 solicitations when it advertised for bids.

A single bidder responded, but at a 31% increase over last year's prices.

The same oil companies that are spending millions of dollars advertising their desire to serve the public and advocate the preservation of mass transit as a solution to the nation's energy crisis, are, at the same time backing off when it comes to serving transit systems.

To an industry that operated at a $513 million deficit last year, further operating costs are unacceptable.

Increased expenses can only lead to the unavoidable cycle of service cutbacks and fare increases that experience has shown to be self defeating, and counterproductive to the public's best interests.

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Emissions from automobiles cause approximately 80% of the air pollution in the nation's cities, and drastic measures will have to be taken to limit the number of automobiles entering 67 of our cities if Clean Air Standards - - set up by the Environmental Protection Agency - - are to be met.

Buses, which run on diesel fuel and emit virtually no carbon monoxide are a practical solution to the nation's problem of reducing air pollution.

If the transit industry can't afford to offer a marketable, that is, economical and complete transit service, more and more people will continue to ride automobiles, emitting more and more carbon monoxide, and using more and more of our fuel supplies.

No more than one half of 1% of the total energy used in transportation is used by buses, while 55% is used by cars.

If the petroleum industry is forced to make reductions due to fuel shortages, mass transit is certainly not the place to cut back.

Rather than continue to consume such a large amount of oil in our automobiles, we should offer commuters and other marginal highway users an efficient, safe and economical alternative - - mass transportation.

A 25% diversion of auto traffic from passenger cars to mass transit could reduce petroleum demands by almost one-half million barrels daily.

Mr. Chairman, the American Transit Association fully supports the authority to allocate petroleum products granted to the President by the Economic Stabilization Act Amendments of 1973.

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The concept of defining priorities for the systematic allocation of supplies of petroleum products is sound and we applaud the efforts of the Congress in enacting the enabling legislation.

The American Transit Association has set up an emergency Diesel Fuel Task Force to act as a watchdog to insure that the transit industry obtains its share of the diesel fuel supply, at a price we can afford.

The Task Force, May 2nd, passed a resolution on the matter that I request be included as part of the record of these procedures. It reads as follows:

Whereas, the transit industry recognizes with increasing concern, the apparent crisis concerning the supply and cost of fuel, and

Whereas, the fact is uncontroverted that mass transportation service is basic to many of our most vital public goals, including the efficient functioning of the economies of our cities and an improvement in the quality of our environment, and

Whereas, the threat of fuel shortages and significant increases in the price of fuel are now being felt by numerous transit systems, and as the nation's mass transportation system is a most necessary ally in efforts to conserve fuel and clean the environment,

Be it therefore resolved, that the American Transit Association be recorded as urging the President, the Congress of the United States and the Petroleum Industry in the United States to take appropriate action to assure mass transportation systems an adequate fuel supply, available at reasonable cost

Further resolved, that the President, the Congress, and the Petroleum

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Industry be urged to alleviate the fuel crisis by insuring adequate supplies of reasonably priced fuel to the transit industry on a priority basis for the purpose of maintaining and increasing the operating capabilities of public transportation facilities.

Mr. Chairman, let me close by stressing the word priority - which is a major concern - we must have this priority assurance that we will have adequate fuel supplies at a reasonable cost.

Thank you, Mr. Chairman.

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Senator McIntyre. Mr. Dunikoski—I am not sure, Mr. Lyon that this question is apropos to you, but you may want to take a crack at it—and I will ask you, Mr. Terry, what the rationale of a major oil company refusing to supply, say, Greyhound or Cleveland Transit System—holding you down to 80 percent or back at 60 percent or 70 percent; in the meantime out in their stations out on the dotted horizon all over the place they are giving away trading stamps—is that it?

Mr. Dunikoski. Glasses, all types of things.

Senator McIntyre. Who are they protecting?

Mr. Terry. I will only indicate to you what was told to me, and this is hearsay here today, which a lawyer sort of has to give you admonitions on, but it makes some sense. Essentially, I am not familiar with the technicalities of it but it has to do with the distillate mix of fuels.

Your diesel fuel is made from crude oil and, as I understand it, is one of the first mixes that come off the stack and then you go further on into refinements of kerosene, gasoline, and other petroleum products. The production costs of diesel fuel are much less than the production costs of the items which come off at the far end of the stack.

So, the rationale essentially is this. They felt if there were some controls on, a total product control of 1.5 over the entire industry, they could very well make more money off the gasoline than from the diesel fuel.

Therefore, they would withhold the diesel fuel, refining the gasoline and an increase in gasoline prices would not be as great in reflecting their profit margin because there would be greater costs involved in that as distinguished from pulling off diesel fuel at one end of the pipe.

I do not know how valid that is, sir. I am not totally familiar with the technicalities of it but with the rudimentary knowledge that I have and the way in which they explained it to me, that appeared to be sensible.

I am not prepared to impeach it. That is what they told us.

Mr. Dunikoski. My observation is this, sir, they have contracts to provide diesel fuel to the major transportation companies at a specific price level and a specific number of gallons.

By reducing that, they can take and convert, as Mr. Terry has pointed out, that crude to gasoline at a higher increase in prices than they get from the contractual customers they have.

I tried to touch on earlier in my testimony that they are not even supplying the people who they are under contract to supply fuel to.

Here they are taking the same crude, converting it to gasoline and making available to noncontract purchasers, what we feel are nonessential uses.

I think it is just a case of economics. They are trying to get the most profit out of the same crude.

Mr. Lyon. Only to underscore, the reason I am here is to make certain you understand that we are very much in the same boat and we are just as vitally concerned about this.

The same thing exactly has happened to us. We are having trouble getting our contracts renewed. They are drawing the rug out from underneath us. Most meetings I have attended indicate that it is a

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matter of pricing and other functions of the market. They are able to get higher prices and a higher markup on the gasoline than the distillates.

That is what underlay my recommendation that the President now must make the allocations to be sure that come winter there has been enough advance production of distillate, because if he has not, we will be in trouble if distillate runs out because gasoline cannot be substitued for oil to heat or run diesel engines with. He has got to make that decision pretty soon.

Mr. DUNIKOSKI. I just want to point out whereas many of the people who testified here today indicated that this was a problem primarily last January, I want you to understand and the committee to understand, that it is a problem right now today in the bus industry.

We are experiencing shortages today at certain locations.

Senator MCINTYRE. What are you doing? Are you taking some of your buses off? How do you get along on 80 percent when you had 100 percent last year?

Mr. DUNIKOSKI. This is the problem. Let me cite you an example. Recently in South Carolina, because of certain military movements, we utilized more buses at a particular location where we had fuel deliveries. We were running out. We went to the fuel supplier and we could not get a firm commitment that we would get the fuel.

We went helter-skelter out there to some independent supplier at considerably higher rates and we are not sure that the independent supplier was not getting it from a major supplier.

We cannot prove or disprove which way or how he was getting it. These are the problems today.

They are real, right today. As other people have testified today, every day we spend hours and hours just trying to keep our buses in operation with this fuel shortage. As Mr. Lyon pointed out, I strongly urge that the committee take whatever action is necessary to get the President to move now, sir.

We feel it is essential that action be taken now, not next fall or winter. The problem is with us today.

Senator MCINTYRE. Essentially, the same reason that you are stating here for this action of the majors, the producing companies, the one that gasoline is a more profitable item with and, therefore, No. 2, fuel oil which first interested me, because that was the heating oil in New England, that is the reason it was given a lower priority.

Let me ask you this, gentlemen, do most of these contracts you have been signing with the suppliers, you know, dating back almost from the beginning of the first time you saw a contract with the supplier, do they have these cancellation clauses? Haven't they always protected themselves with these cancellation clauses?

Mr. DUNIKOSKI. I cannot speak as far as in the past. I can tell you today. For example, we negotiated a contract in 1972, a 5-year contract for a certain number of gallons annually at a certain figure. They have inserted, as Mr. Terry indicated originally, every type of contractual language that, No. 1, requires renegotiation of the prices annually, and if you do not agree to the price negotiation annually, they have the right to cancel within 30 days. They also have the rights in there—or at least they have indicated in their contracts that

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if they determine that they want to reduce your total supply by "x" percent, which they did 20 percent less or 25 percent less, that they have the right to do this, so in answer to your question, I can tell you, sir, that all the contracts that we have been involved in negotiating recently, they have every type of protection that affords them—it is strictly a one-sided contract, but it is like having a knife at your jugular vein. You do not really have any choice.

Senator McIntyre. One of the questions that we have in mind will very likely be answered on the last day of our testimony, on May 11, when we will be asking Dr. Dunlop, who is the Director of the Cost of Living Council, whether the oil industry is meeting the mandatory price standards imposed by the Cost of Living Council back in March of 1973.

So, hopefully, we will be able to find that out from him. I suspect that they have somehow or other met the limitations placed on them.

Mr. Lyon. I would like to make one brief comment about that. There apparently are different ways of handling fuel through different kinds of marketing procedures between the parties that somehow or other make the price controls under the voluntary guidelines less effective. I am not exactly sure how this works. That might be one avenue to explore with the Cost of Living Council Chairman, Dr. Dunlop.

Senator McIntyre. I will just say for the record, I think, Mr. Lyon, you are probably right. It is my understanding that the 23 largest oil companies in the United States were placed under mandatory controls, which would allow only a 1 percent increase in price in 1973 without the approval of the Cost of Living Council.

A second provision of the mandatory price control regulations provides that crude and petroleum prices could increase to a maximum of 1½ percent if such increases could be justified because of increased costs.

While we have no documented evidence, there is a serious question, so far as this committee is concerned, as to whether the industry has not already exceeded the mandatory pricing guidelines. But we will get the answer to that for our record.

Mr. Terry. While Mr. Dunikoski was indicating the restrictive provisions in the contract, I just put my thumb on one clause which I would like to read to you which indicates how they can control the supply. This is one clause which they placed in our contract on Friday.

> If, for any such cause, the supply of diesel fuel available to contractor for deliveries in the Cleveland area is cut off, or so curtailed as to prevent contractor from furnishing through its regular methods of distribution, the full quantities of diesel fuel required of its customers in said area, contractor shall have the right to allocate the available quantities of such fuel among such of its regular customers in such manner as contractor shall deem for its best interest, and in such event the transit system of the City of Cleveland shall have no claim for any failure or partial failure or delay on the part of the contractor in making deliveries of the full quantities of fuel ordered by the transit system.

Senator McIntyre. I do not blame them for putting that sort of a clause in the contract today. For 8, 9, 10, or 15 years, they must have been dealing with some sort of escape clause in their contracts, probably not as critical or as difficult as you are encountering today.

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Today they are faced with the fact that we do not have the refining capacity or the production in this country to meet the rising demand.

I suspect that your answer in general, as I take the three of you here and again I am leading you a little bit, it is that the President should begin to use the authority contained in the Economic Stabilization Act to set forth plans that will go to the fuel allocation problem.

Mr. DUNIKOSKI. I would like to restate—I strongly urge that he take action now. I feel it is mandatory that he take action now and not wait until later. The situation is critical.

Senator MCINTYRE. Anything further that any of you would like to add to your testimony at this time?

Mr. TERRY. Nothing further, other than the fact that our Board of the American Transit Association has not met to consider this problem. However, they did authorize the appointment by the president of the association of our task force, and it is the feeling further of the chairman of the emergency task force that they will concur in our resolution which addresses itself to an affirmative response to the question that you have just raised.

Senator MCINTYRE. In the event anything transpires among your associations before the closing time of our testimony, we usually set a closing time of probably 2 weeks after we adjourn or recess at the call of the Chair, next Friday—if you want to bring something into the record here, we would be glad to receive it.

Mr. DUNIKOSKI. I would like to make this comment to a question you asked of the panel that was up here earlier, as to from whom we seek relief. I would like to state, as far as the bus industry is concerned, we have had the same degree of problems. There are so many agencies involved, there really is no planned group that we can approach.

Quite frankly, in view of all the confusion, I think we have to look now to the Department of Transportation, so again if there were one particular agency, we would certainly support that position.

Senator MCINTYRE. Thank you all for coming here today to testify to the problems you have encountered. We will proceed during the next 4 days to hear the ramifications of every aspect. I am hopeful we will be moving in the direction that at least, the one you three gentlemen feel we should be.

We will recess until 10 o'clock tomorrow morning.

[At 12:10 p.m. the committee recessed to reconvene at 10 a.m. Tuesday, May 8, 1973.]

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PETROLEUM PRODUCT SHORTAGES

TUESDAY, MAY 8, 1973

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING,
AND URBAN AFFAIRS,
Washington, D.C.

The committee was convened at 10 a.m., in room 5302, New Senate Office Building, Senator John Sparkman, chairman of the committee, presiding.

Present: Senators Sparkman, McIntyre, and Johnston.

Senator MCINTYRE. The committee will come to order.

We will continue our hearings this morning on the subject of the Impact of Petroleum Product Shortages on the National Economy. Let me insert in the record at this point a letter I sent to the White House, May 7.

[The letter follows:]

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS,
Washington, D.C., May 7, 1973.

THE PRESIDENT,
THE WHITE HOUSE,
Washington, D.C.

DEAR MR. PRESIDENT: I am writing you on a matter of extreme urgency that concerns not only a significant portion of this country's oil industry but also will have a profound impact on the citizenry and national economy if action is not taken immediately. The matter that I am referring to is the gasoline shortage that is beginning to exhibit a crippling impact on a number of sections of the country; a variety of industries, including the independent marketing and refining segments of the oil industry; and the consumer.

As you may recall, in a letter I sent to you this winter during the period that several sections of the country were experiencing home heating oil shortages, I warned that evidence was beginning to develop indicating that because of the apparent inability of the refining segment of the oil industry to provide sufficient supplies of various petroleum products that a gasoline shortage was likely to occur either in the late spring or the early summer of this year.

In anticipation of such shortages developing with regard to a number of essential petroleum products, I offered an amendment providing you with the authority to allocate petroleum products during such shortage periods. As you well know, this amendment was adopted by both Houses of Congress and is contained in the extension of the Economic Stabilization Act which you signed into law April 30, 1973.

In my opinion, it is a matter of utmost urgency that you immediately take steps to implement the authority granted to you to (1) establish an allocation procedure among the various sections of the country which clearly sets standards and criteria for priorities of use: and (2) implement a program that will assure that sufficient supplies of petroleum products are made available to all segments of the petroleum industry in a manner designed to prevent anticompetitive effects from developing within the petroleum industry itself.

It is apparent that if such action is not taken immediately that this country will experience a severe curtailment of necessary petroleum supplies

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and that a substantial segment of the petroleum industry comprised exclusively of small businessmen will be destroyed.

Sincerely,

THOMAS J. MCINTYRE,
U.S. SENATOR.

Senator MCINTYRE. We call as our first witness this morning Mr. Fred C. Allvine, associate professor of marketing, Georgia Institute of Technology.

We are glad to welcome you here this morning, professor. I am interested in what you have to say about this problem that is confronting the Nation at the time. We have a copy of your statement.

STATEMENT OF FRED C. ALLVINE, ASSOCIATE PROFESSOR OF MARKETING AND FRED A. TARPLEY, JR., PROFESSOR OF ECONOMICS COLLEGE OF INDUSTRIAL MANAGEMENT, GEORGIA INSTITUTE OF TECHNOLOGY

Mr. ALLVINE. The statement will require about 12 minutes to read. If I just proceed right on through it——

Senator MCINTYRE. Any place you can summarize or skip a paragraph, we will appreciate it, because we are operating with about 70 minutes today. I want you to feel in the end you have had an opportunity to testify, but we will appreciate anything you can do to shorten it.

Mr. ALLVINE. With me is Professor Tarpley, also from Georgia Institute of Technology. We hope the complete statement will be printed in the record.

Senator MCINTYRE. Oh, yes.

Mr. ALLVINE. The future of independent private brand marketing sector of the gasoline industry is in severe jeopardy. Already the gasoline shortage has destroyed several competitors and our analysis indicates the situation is growing worse. If conditions continue as they are, the casualties by the end of this summer are going to be great. Unless there is some relief from the competitive squeeze taking place, it is very likely that irreparable damage may be done to the independent marketing segment of the gasoline industry.

The critical situation confronting independent discount gasoline marketers is inimical to the public interest. Such marketers have been the primary source of price competition and have been the leading source of innovation in gasoline marketing. Independent private brand marketers have for the last several years sold gasoline for 3 to 5 cents per-gallon less than the prevailing price of major brand gasoline.

Accounting for approximately one-eighth of the gasoline sold through stations, they directly saved the public an estimated $375 million during 1972 and well over a half a billion dollars when the responses of major brand marketers were considered.

The largest independent private brand companies operate fewer than a thousand stations. Many of the larger private branders operate only a couple hundred stations and there are hundreds of independents each operating less than a dozen stations. The smallness in size of the independents would be in contrast to the eight largest major brands including Exxon, Texaco, Mobil, Gulf, Shell, Socal, Amer-

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ican, and Arco, each having more than 20,000 stations in the United States.

The large numbers of independent private brand organizations, each pursuing their own best economic interest, is what has made the discount marketer such an important competitive force in the gasoline industry.

Independent private brand marketers have grown by employing the discount method of selling gasoline on a high-volume and low-price basis. These discount marketers operate with margins of 5–7 cents-per-gallon in comparison to the major brand companies that require 10–12 cents or more to sell their gasoline. As a result of their efficiencies, the independent marketing specialists have, until recently, been able to sell gasoline at substantial savings to the public.

The increasing relative efficiency of the independents' method of marketing was exerting tremendous economic pressure on the costly major brand method of marketing. This major brand method of marketing has been to sell relatively high-priced gasoline, on a brand-advertised basis through a very large number of stations, located on expensive properties with elaborate facilities, using credit cards, stamps, premiums and games. As a result of the independents, the majors' overbuilt and costly style of marketing was starting to crumble. The consumer savings that would have resulted from the gasoline marketing revolution that was in the makings could easily have been between $1 billion and $2 billion a year.

The independent discount gasoline marketers, however, are no longer able to exert the much needed pressure on the dominant operators to reform their costly methods of marketing. Several of those independent marketers that were forcing change up to 9 months ago have either been forced out of business, or else are now fighting for survival and are trying to keep their doors open. The dramatic change of circumstances for independent price marketers from being at the leading edge of change a few months ago to their current problem of survival is a result of the rapidly surfaced petroleum supply problems.

Senator McIntyre. Professor, I appreciate your trying to go right along. I think you are going a little fast, even for yourself. You must be out of breath.

You say that several of those independent marketers were forcing changes up to 9 months ago have either been forced out of business, or else are now fighting for survival and trying to keep their doors open. Do you know the names of these firms?

Mr. Allvine. With my interest in independents, I am in contact with marketers on a nationwide basis. I also receive eight industry trade journals which I religiously read. Between the calls and the conversations and speeches that I have been making across the country, I have been in close contact with independents and their plight has been very well known to me.

Senator McIntyre. This is nationwide?

Mr. Allvine. It is a nationwide phenomenon, sir.

Senator McIntyre. Very well. Proceed at a little slower pace, if you will.

Mr. Allvine. The crippling problem of the independent discount gasoline marketers is securing competitive supplies of gasoline to

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sell to their customers. Some refineries have taken advantage of the growing shortage of crude oil and refined products. Crude oil and refined products have been diverted from independent refineries and discount marketers to direct operations of certain of the integrated oil companies. As this has happened independents have been compelled to increase their prices, reduce hours of operation and to lay off employees in order to continue to operate. Those that were hit earlier and harder by cutbacks in supply have gone out of business.

The public consequence of using the supply shortage to divert products from independents has been to destroy the primary source of price competition in the marketplace. As supplies have been fixed, reduced, and cut off to the independents, the major oil companies are no longer particularly concerned about price competition. The sudden stability of gasoline prices in the marketplace as supplies have been diverted from independents can be observed from figures 1–6 that are attached at the back of this statement.

The price charts for six major markets show that around the middle of August, 1972, that price competition suddenly halted in a miraculous sense in these market areas.

With supplies reduced and regulated to the discount marketers, the major oil companies were no longer concerned about the growth of price marketers. Control over supply and its diversion from the discount marketers has proven to be a very effective technique for regulating and destroying price marketing.

With gasoline supply delicately balanced to demand, and the discount marketers unable to grow and expand on the basis of their relative efficiency, it has been possible for the major brand marketers to significantly increase their prices. For the 37-week period from August 13, 1972, through April 22, 1973, in comparison to the previous 37 weeks, the major brand prices increased by 3.5 cents per gallon in Los Angeles—the world's largest gasoline market—2.4 cents in Portland, 3.9 cents in Seattle, 2.4 cents in Phoenix, 2.8 cents in Boise and 2.7 cents throughout most of Nevada.

As the figures show, since supply has been sharply reduced and prices increased to the discount marketers the past 2 to 3 months, the independents have been forced to increase their prices to nearer the major-brand price level. During the last 3 months the independent price has increased in Los Angeles, Portland, Boise, and throughout Nevada from 3–6 cents per gallon.

These were on top of earlier price increases of around 2 cents per gallon by the independents. Without supply there is no way for the independent discount marketers to act as an effective deterrant to major brand price increases. Furthermore, as supply is reduced to the independent, it becomes necessary for him to increase his price to try to stay alive.

Price increases on the order of those observed in the six western U.S. market areas have been fairly common throughout the country. So far this year the wholesale price of gasoline to major brand dealers—the dealer tank wagon price—has increased around 2.1 cents per gallon the basis of a 100-market survey as shown in the chart below.

Such increases in the cost of gasoline to dealers really translates into retail prices of around 3 cents per gallon to the public throughout the country.

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This general stabilization of prices occurred in mid-August 1972, the same time as the price increases observed in the six western markets. An account of the nationwide price increase in mid-August 1972 from the Oil Daily is attached to this statement.

Now, in this article an independent marketer was quoted as saying that "word finally has filtered to the 'wilder' marketers that gasoline might no longer be available for volume-selling based on price cutting."

As the supply situation has grown tighter, the threats or prognosis have come true and price marketers are being squeezed, weakened, and destroyed.

In contrast to the desperation situation of the independents, several of the major oil companies reported that first-quarter earnings had increased from 30 to 50 percent with profits at record levels.

The serious predicament of independents was recently underscored by Keith Fanshier, president of the Oil Daily, one of the leading industry trade papers. Fanshier, who frequently takes positions favorable to the giants of the industry, points out in an article, "The Small Businessman Now," the desperate situation of the independent marketers. Excerpts from his article are as follows: I will just read the last one.

> It will make for a better total industry in the end, to have a vigorous, healthy, surviving small business wing of the industry . . . . When the shortage is at last overcome, the good businessman must still be in business—not have been a tragic casualty. The industry as a whole must keep this vital lesson uppermost in mind.

Fanshier is giving some very important advice, but it is doubtful that those the message is intended to reach will listen and respond.

The question is sometimes asked or implied "Why did the independent marketers allow themselves to get into such a serious supply situation?"

Stated another way, "Why didn't the independents have the foresight to integrate backwards into refining?"

The supply problem of independent marketers is to a considerable degree the long-run consequence of vertical integration and monopoly power in the crude oil market. Over much of the past 25 years, crude oil prices have been administered at artificially high levels. With high-priced and noncompetitive feedstocks and the prospects for low wholesale prices from integrated competitors, limited economic incentive has existed for making investment in independent refining. In contrast, integrated refineries, owning large quantities of crude oil, have been in a favored position to expand their own refining as a way to utilize their highly profitable crude oil. It following that independent discount marketers have been forced to become more directly and indirectly independent upon the major oil companies for supply.

Vertical integration also led to integrated oil companies subsidizing their marketing operations. Until recently, marketing investment, like refining, was used to cash in crude oil profits. The subsidizing of marketing with crude oil profit and cash flow led to the tremendous and costly overinvestment in marketing that exists today. Even executives of Exxon and other huge integrated oil companies point

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out that there are two to three times more retail stations than are needed to efficiently serve the public interest.

The costly overinvestment in marketing would not be anywhere near the problem that it is, had it not been for integration and subsidization of marketing with crude oil profits and cash flow benefits. If marketing was not tied to crude oil, the investment in marketing would be much less and gasoline would be sold to the public on a more efficient basis at a lower price.

It is ironic that the independent discount gasoline marketers are having such difficulties today, for the major integrated oil companies are now attempting, after 25 years of heavy subsidization, to put marketing and refining on a profitable basis. With the major oil companies reducing their marketing subsidies, the independents, who have existed without subsidies, should be enjoying a new prosperity and a deeper market penetration because of their much greater efficiency.

Integrated oil companies are now desirous of making refining and marketing profitable since the crude oil profit haven that they have enjoyed since World War II is eroding. Internationally, foreign governments are increasing crude oil prices and moving to take over the oil fields now in their respective countries.

In the United States, most of the readily available and low-cost oil has already been discovered and that which remains to be discovered is quite costly.

Thus, the financial strategy of the integrated companies must be to put refining and marketing on a profitable basis and to capture more of their earnings from their activities. However, standing in the way of this strategy are the independent discount gasoline marketers and the independent refineries that have operated without subsidies.

Therefore, if the integrated companies are to breathe significant profits back into their costly and inefficient marketing system and into their refining activities, the independents must be eliminated as an effective marketing force. The way to stop the independent discount marketers is to reduce or cut off their supplies of finished products. Similarly, the way to damage independent refiners is to cut off their supplies of crude oil. This can be done by refusing to sell or by raising prices to uncompetitive levels. Both are occurring and the independent marketer and the independent refiner is in peril of extinction.

In conclusion, the performance of the petroleum industry could be greatly improved if the struggling independent sector of the industry were saved. This will occur only if Congress acts decisively against the predatory acts of some of the integrated oil companies in cutting off supplies of refined products and crude oil to their traditional independent customers.

For the duration of the supply crisis, the integrated oil companies should be prohibited from selling a larger percentage of their refined products and crude oil through controlled refining and marketing operations than they did during the base period of the first half of 1972, prior to the occurrence of the severe product shortages. The remaining refined products and crude oil would then be equitably distributed and priced to traditional independent customers based upon normal supply relations during the base period. To the extent

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that independent customers have already been put out of business and cannot be restored, the balance of available product would be proportionately distributed to the surviving independent companies.

Over the long run, the competitive performance of the petroleum industry would be greatly improved by the physical or functional divorcement of crude oil production from other industry activities. Crude oil has been the source of monopolistic power. It has been used to weaken and destroy downstream competitors, including those integrated competitors who are relatively poor in crude oil.

Physical divorcement would mean that crude oil activities would be spun off and run by new and independent companies. Functional divorcement would require integrated oil companies to adopt separate operating and accounting procedures and would require their crude oil activities and their refining and marketing activities to stand on their own respective financial feet.

Both physical and functional divorcement would—to varying degrees—result in improved public performance of the petroleum industry. One thing that would happen is that the excessive investment in marketing and the high cost of selling would cease. After a period of adjustment there would be perhaps half the number of stations, and the cost of selling gasoline could easily result in prices generally 2 cents-per-gallon less than present levels. This would mean a saving of about $1½ billion a year.

In summary, the imperiled condition of discount marketers and refineries in the short run can be remedied by the proper legislation or by governmental decree. For the duration of the supply crisis independent marketers and refineries should obtain their fair share of product based upon historical relationships with their suppliers and the product should be available at competitive prices for the different classes of customers.

The long-run solution to the problem of unfair competition with independents from integrated oil companies can be solved by divorcement of crude oil. While the performance of the petroleum industry would improve most with physical divorcement of crude oil from the remainder of the industry activity, the less severe functional divorcement—accounting, operational and financial—would do some good and would not be hard to implement. At the very least the Government should seek functional divorcement to decrease the likelihood of the continuation of high-administered crude oil prices in the United States that squeeze downstream competitors and that distort the normal competitive processes in the pertoleum industry.

Senator McIntyre. At this time I yield to the distinguished chairman of the committee, Senator Sparkman, with the admonition that the 10-minute rule is in effect.

The Chairman. Thank you, Senator McIntyre.

Let me say first I am very pleased that you set these hearings. I think they are badly needed.

I have enjoyed very much the statement that has been given to us. I was looking at some of these charts. I am not sure I can read them. They seem interesting anyhow, showing the variation in price.

When you speak of divorcement from crude oil, just what do you mean by that?

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Mr. ALLVINE. What we are suggesting is a possibility of two approaches to divorcement. One is to sever crude oil operations from the integrated oil companies entirely, make them independent companies, different stock ownership, acting in their own best interest relative to the remainder of the company which would be distribution, refining and marketing.

The CHAIRMAN. Would this be through the entire industry?

Mr. ALLVINE. That would be through the entire industry.

The CHAIRMAN. Both independent and the others?

Mr. ALLVINE. There would be independent crude-oil exploration and production companies and then there would be distribution, refining and marketing companies.

What we would find if this were done, Senator, is that crude oil would tend to reach a fairer and competitive price based upon market conditions and factors and not beset by the administration practices of the major oil interests in this country where supply is very limited and the normal workings of the marketplace due to a variety of conditions are not allowed to take place.

The CHAIRMAN. But do the independents have refineries, as such, or do they rely upon purchasing from the major oil companies?

Mr. ALLVINE. I believe that I understand your question. If you look at the petroleum industry, let us say somewhere in the vicinity of 90 percent of the refinery industry is owned or otherwise controlled by the integrated companies that operate from crude, pipeline, refining, pipelines, distribution, and marketing. These companies, it is estimated, are approximately three-fourths sufficient in their own crude oil.

Nationwide, then, perhaps somewhere in the neighborhood of 65 to 70 percent of the crude oil that is produced in this country is owned by the integrated oil companies.

The remainder of the crude oil is supposedly produced by independent companies, but a further factor is the integrated oil companies control the vast majority of the gathering lines and the feeder lines.

So, their control over crude oil is much greater than the two-thirds that they directly own or they otherwise control.

The CHAIRMAN. What action would you propose be taken by the Government or what form of legislation is needed from the Congress?

Mr. ALLVINE. I am proposing that the Government seriously look at the problems of this industry, how they have gotten into them and recognize that crude oil has been the tail wagging the dog, and that, if one were to look at over the past 20 to 25 years where the profits of the industry have been centered, they have been in crude oil activities.

Crude oil prices have been admiinstered at artificially high levels. This is the problem that needs to be squarely dealt with if we are going to have an industry that is more responsive to the normal processes of the market place and thereby the needs of the consumers.

The CHAIRMAN. Thank you. I have no further questions at this time.

Senator MCINTYRE. Senator Johnston?

Senator JOHNSTON. The marketing practice of the majors was set up at a time when gasoline was very plentiful, was it not, and set up

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with a view to marketing all the product they could and hasn't that changed now with the shortages, and can't we expect the marketing practices brought on by what hopefully is a free-market economy, can't we expect that to come back into line?

Mr. ALLVINE. Could you define a little bit more clearly your question?

Senator JOHNSTON. Yes.

The marketing practices of the majors, that is, to get the expensive corners and to sell at a little higher price and to advertise broadly, that practice was created and begun and nurtured during a period when there was an excess in effect of gasoline, is that right?

Mr. ALLVINE. That is one interpretation, yes. I do not think it was a consequence of the surplus in gasoline. The marketing excesses that are experienced have been made possible because of high profits that were tucked away in the crude-oil activities. Marketing became a vehicle to get rid of the highly profitable crude oil. The marketing investments that were made would not have been made had it not been without the connection of marketing to crude oil. There was no economic justification for the level of this investment. It did not stand on its own two feet. I would suggest, Senator, if you could get into the records of integrated oil companies for their returns from marketing for the year 1971 and until August of 1972, I would not be surprised if you found a negative rate of return on some of these companies or very marginal relative to their crude oil activities.

It was not because of excess refining capacity that they overbuilt marketing, it was because of the profits that were tied back and hidden in the crude oil activities that forced them to use marketing to cash in on their crude oil profits.

Senator JOHNSTON. I don't quite understand how they would cash in on the crude oil profits.

Why couldn't they sell that on the market?

Mr. ALLVINE. Senator, conditions are changing very dramatically. If you ask that question now, they can sell every barrel of crude oil they want without tying it to refining and marketing. In fact, we see some companies that are small enough, that do not have the tremendous investment in marketing, trying to get out of marketing. Getty has been getting out of marketing on the west coast. Signal Oil & Gas has been getting out of marketing. Skelly in the West has been trying to get out of marketing. I know personally from conversations with some of the smaller integrated oil companies when they can sell every drop of crude today. You are absolutely right, if they can get out of marketing. But the fact is that many are locked in with heavy investment made in the past which they cannot suddenly get rid of it and spin off to someone else.

Senator JOHNSTON. We had a bill that we considered in Interior yesterday that deals with almost the precise situation you described there, in addition to other things, but it would require that the base period—the base period I think ends in June 1973, I believe, but in any event, you have a base period of a year and it would require the majors to sell to the independents the same percentage that they did during the base period.

As I understand it, that suggestion on your part would be only an interim solution to deal with the present prices, that for a long-

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term situation you think you ought to divorce marketing from the majors, is that correct?

Mr. ALLVINE. Yes; if we look at the cost structure of the industry and do a little mathematics as I was doing while you were talking. Crude oil costs about 8, 8½ cents a gallon. The cost of marketing gasoline is about 13 cents a gallon for the majors. Now, we would not have to have tremendous increase of prices to the public if we could allow crude oil, let us say, to go to $5 a barrel and be sure that it was used for exploration and not for the driving out of the independent refiners and marketing. In part, the increase in the price of crude oil could be offset in terms of the retail price for gasoline. Crude oil cost 8 cents versus 12 to 13 cents in marketing cost. I think we could reduce those marketing costs by 2 or 3 cents if we had more sanity in terms of the structure of the industry.

Crude oil could move from its present level, $3.80 a barrel to $5. There would be incentive to explore in the ground, to dig the holes to find the oil, to help us with our national security problem.

If crude oil prices are increased and subsidization continued, what we are really doing is bleeding off incentives to explore in terms of subsidizing refining and marketing.

I think we can develop a better solution to our problems if we let the marketplace cut back on some of the excess and costs in terms of moving products from the refineries on out to the public.

Let crude oil prices increase and be used for a legitimate purpose. If you let crude oil prices increase without downstream subscription, then you can afford to dig deeper in the ground to find it.

In the process of doing this the problem is to see that they do not use some of those crude profits to continue to subsidize the refining and marketing and to increasing their wholesale prices to the independents and to squeeze them.

If crude profits were used for their purpose of exploration and production rather than to subsidize refining and marketing, there wouldn't be any real problem. I think you can only prohibit downstream subsidization by divorcement. We would not have our severe energy problems today had there not been vertical integration.

Senator JOHNSTON. One final question: What do trading stamps cost percentagewise—what is the maximum return you can get on the trading stamps? Should the Government take steps to eliminate them? First of all, what do they cost percentagewise?

Mr. ALLVINE. About 3 percent on the studies that I have done; 2½ to 3 percent, depending on what volume you buy.

Senator JOHNSTON. If you keep them all and cash them in, what do you get in value?

Mr. ALLVINE. I would say that you get more in terms of economic value by collecting trading stamps than cash costs of stamps.In my mind, you do get good value received.

Senator JOHNSTON. In other words, if you make a $100 purchase, you get——

Mr. ALLVINE. What I am suggesting, Senator, if you pay $3 for trading stamps, in terms of redemption value you will redeem those stamps for say 20 percent more. I think there is value in stamps.

It leads to the second aspect of your question. I wouldn't advocate a law eliminating trading stamps, because this would interfere with the

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normal workings of the marketplace. If we deny certain business options, then I think we are destroying the marketplace and we might as well go to total regulation and nationalization of the industry. I have not become so soured on the prospects for this industry that I am yet at that particular point. I think trading stamps will take care of themselves if you let the marketplace operate as it should. As I study the situation around the country, companies are giving up trading stamps from the high levels that they had in the later sixties. I believe that if something is not of value to consumers, competitive processes will drive out the bad.

Senator JOHNSTON. Thank you.

Senator MCINTYRE. In the first paragraph of your conclusion, you use the term "predatory acts." My understanding is this word is associated with anti-competitive activity in violation of the Federal antitrust laws. Are you inferring in fact that the industry is freely engaged in antitrust activity designed to drive out the independents?

Mr. TARPLEY. I would say that there is not a conclusive case. We do see from the data that around August 15 prices going up in six major markets. Previously, there had been a great deal of price variation and a great deal of price instability.

Also in the article which was appended to our testimony, it was indicated that price protection was reduced or withdrawn in several instances simultaneously or delayed for a short period of time. These are activities which are occurring about the same time. You can have kind of a double theory, if you wish. But it does seem that it is beyond coincidence that these occurred at the same time and that prices were or did go up in so many markets at about the same time. The rumor was that on the first anniversary of the price freeze we might have imposition of a new freeze on gasoline prices. Prices went up, price-support protection was withdrawn, and price stability came to markets which had been characterized by something other than stability.

Senator MCINTYRE. At the close of your statement, Professor, I think I would like to ask what is your assessment of the extent and impact of the present gasoline shortage on the economy of the Nation—what is your assessment?

Mr. ALLVINE. I think that the shortage situation, Senator, if it is allowed to continue its present course will cost the public in excess of $1 billion a year by first destroying the independents and the savings that they have passed on, and second, by permitting the major oil companies to increase prices without the competitive pressures and realization that if they get prices too high that the independents through their efficiency will take an increasing share of the marketplace.

So I would look at cost as a consequence to the public of the supply shortage and how it has worked against the independents. The cost on an annual basis to the public could be $1 billion to $2 billion a year.

Senator MCINTYRE. In order to establish your expertise in this subject, can you briefly tell the committee what your association with the oil problems have been and also then for the record elaborate briefly on what credentials you can present here this morning to give us this expert testimony?

Mr. ALLVINE. Since mid-year 1968, the gasoline and petroleum industry has been my major area of research. I have studied in depth

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over this period of time the nature of marketing, from both the major and the independent side. In the process I have looked at competition and how it has developed and how it has been forwarded in the marketplace. I prepared a book with a co-author, James Patterson, from Indiana University which was published last year called "Competition Ltd.: The Marketing of Gasoline." Over the past 3 years I have given statements before 8 to 10 hearings such as this one. This year I have given several talks to jobber and independent marketing associations. I guess I would say, Senator, that I have really been living and studying the gasoline marketing industry from an academic and quasi-pragmatic point of view for the past 5 years.

Senator McINTYRE. Your services in this matter have from time to time been compensated for by independent organizations, is that correct?

Mr. ALLVINE. Yes, Senator, they have been. I would say in response to your question, I have never had anyone try to change my position or statement. What I do is my work. The statement that I gave today was read by no one prior to my appearing in this room.

Senator McINTYRE. Professor Tarpley, would you also furnish for the record your credentials for your expert testimony here today?

[The complete statement and additional information follows.]

STATEMENT OF FRED C. ALLVINE, ASSOCIATE PROFESSOR OF MARKETING AND FRED A. TARPLEY, JR., COLLEGE OF INDUSTRIAL MANAGEMENT, GEORGIA INSTITUTE OF TECHNOLOGY

My name is Fred C. Allvine and I am an associate professor of marketing in the College of Industrial Management at Georgia Institute of Technology, and with me is Fred A. Tarpley, Jr., professor of economics, at Georgia Tech. For the past several years my research has focused on the gasoline industry, and Mr. Tarpley and I are working together on studies of gasoline marketing. Thank you for the invitation to appear before this distinguished committee to discuss the serious effects of supply shortages on competition in the gasoline industry.

The future of the independent private brand marketing sector of the gasoline industry is in severe jeopardy. Already the gasoline shortage has destroyed several competitors and our analysis indicates the situation is growing worse. If conditions continue as they are, the casualties by the end of this summer are going to be great. Unless there is some relief from the competitive squeeze taking place, it is very likely that irreparable damage may be done to the independent marketing segment of the gasoline industry.

The critical situation confronting independent discount gasoline marketers is inimical to the public interest. Such marketers have been the primary source of price competition and have been the leading source of innovation in gasoline marketing. Independent private brand marketers have for the last several years sold gasoline for 3-5 cents per gallon less than the prevailing price of major brand gasoline. Accounting for around ⅛th of the gasoline sold through stations, they directly saved the public an estimated 375 million dollars during 1972 and well over a half a billion dollars when the responses of major brand marketers are considered.

The largest independent private brand companies operate fewer than a thousand stations. Many of the larger private branders operate only a couple hundred stations and there are hundreds of independents each operating less than a dozen stations. The smallness in size of the independents would be in contrast to the eight largest major brands including Exxon, Texaco, Mobil, Gulf, Shell, Socal, American and Arco, each having more than 20,000 stations. The large numbers of independent private brand organizations, each pursuing their own best economic interest, is what has made the discount marketer such an important competitive force in the gasoline industry.

Independent private brand marketers have grown by employing the discount method of selling gasoline on a high-volume, low-cost and low-price basis.

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These discount marketers operate with margins of 5-7 cents per gallon in comparison to the major brand companies that require 10-12 cents or more to sell their gasoline. As a result of their efficiencies, the independent marketing specialists have, until recenlty, been able to sell gasoline at substantial savings to the pubic.

The increasing relative efficiency of the independents' method of marketing was exerting tremendous economic pressure on the costly major brand method of marketing. This major brand method of marketing has been to sell relatively high priced gasoline, on a brand advertised basis, through very large numbers of stations, located on expensive properties with elaborate facilities, using credit cards, stamps, premiums and games. As a result of the independents, the majors' overbuilt and costly style of marketing was starting to crumble. The consumer savings that could have resulted from the gasoline marketing revolution that was in the makings could easily have been between one and two billion dollars a year.

The independent discount gasoline marketers, however, are no longer able to exert the much needed pressure on the dominant operators to reform their costly methods of marketing. Several of those independent marketers that were forcing change up to nine months ago have either been forced out of business, or else are now fighting for survival and are trying to keep their doors open. The dramatic change of circumstances for independent price marketers from being at the leading edge of change a few months ago to their current problem of survival is a result of the rapidly surfaced petroleum supply problems.

The crippling problem of the independent discount gasoline marketers is securing competitive supplies of gasoline to sell to their customers. Some refineries have taken advantage of the growing shortage of crude oil and refined products. Crude oil and refined products have been diverted from independent refineries and discount marketers to direct operations of certain of the integrated oil companies. As this has happened independents have been compelled to increase their prices, reduce hours of operation and to lay off employees in order to continue to operate Those that were hit earlier and harder by cutbacks in supply have gone out of business.

The public consequence of using the supply shortage to divert products from independents has been to destroy the primary source of price competition in the marketplace. As supplies have been fixed, reduced and cutoff to the independents, the major oil companies are no longer particularly concerned about price competition. The sudden stability of gasoline prices in the marketplace as supplies have been diverted from independents can be observed from Figures 1-6 that are attached at the back of this statement. The price charts for six major markets (where data was available) show that around the middle of August, 1972 (week "33/72") that price competition suddenly halted. With supplies reduced and regulated to the discount marketers, the major oil companies were no longer concerned about the growth of price marketers. Control over supply and its diversion from the discount marketers has proven to be a very effective technique for regulating and destroying price marketing.

With gasoline supply delicately balanced to demand, and the discount marketers unable to grow and expand on the basis of their relative efficiency, it has been possible for the major brand marketers to significantly increase their prices. For the 37 week period from August 13, 1972 through April 22, 1973, in comparison to the previous 37 weeks, the major brand prices increased by 3.5c per gallon in Los Angeles, 2.4c in Portland, 3.9c in Seattle, 2.4c in Phoenix, 2.8c in Boise, and 2.7c throughout most of Nevada. As the Figures show, since supply has been sharply reduced and prices increased to the discount marketers the past two to three months, the independents have been forced to increased their prices to nearer the major brand price level. During the last three months the independent price has increased in Los Angeles, Portland, Boise and Nevada from 3-6 cents per gallon. These were on top of earlier price increases of around two cents per gallon by the independents. Without supply there is no way for the independent discount marketers to act as an effective deterent to major brand price increases. Furthermore, as supply is reduced to the independent it becomes necessary for him to increase his price to try to stay alive.

Price increases on the order of those observed in the 6 western U.S. market areas have been fairly common throughout the country. So far this

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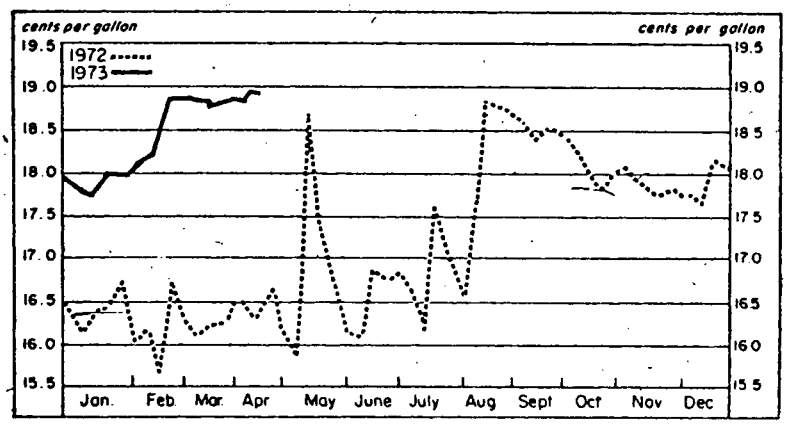
year the wholesale price of gasoline to major brand dealers (the dealer tank wagon price) has increased around 2.1 cents per gallon on the basis of a 100 market survey as shown below (source: *The Oil Daily*, April 26, 1973, p. 2).



Such increases in the cost of gasoline to dealers translates into retail prices of around 3 cents per gallon to the public. This general stabilization of prices occurred in mid August 1972, the same time as the price increases observed in the 6 western markets. An account of the nationwide price increase in mid August 1972 from *The Oil Daily* is attached to this statement. In this article an independent marketer was quoted as saying that "word finally has filtered to the 'wilder' marketers that gasoline might no longer be available for volume selling based on price-cutting." As the supply situation has grown tighter, the threats or prognosis have come true, and price marketers are being squeezed, weakened and destroyed.

The serious predicament of independents was recently underscored by Keith Fanshier, President of *The Oil Daily*, one of the leading industry trade papers. Fanshier, who frequently takes positions favorable to the giants of the industry, points out in an article, "The Small Businessman . . . Now", (*The Oil Daily*, April 30, 1973) the desperate situation of the independent marketers. Excerpts from his article are as follows:

. . . In many a case today, the small operator throughout the industry has fallen upon dire and desperate straits, in which the problems have hit close to the heart of his substance and his operating survival.

The whole industry is in this supply problem together, and needs to the greatest degree legally possible to pool its resources and cooperate in ways never before thought possible.

. . . it is essential that the small businessman . . . come through this experience without being fatally injured.

It will make for a better total industry in the end, to have a vigorous healthy, surviving small business wing of the industry . . . When the shortage is at last overcome, the good businessman must still be in business—not have been a tragic casualty. The industry as a whole must keep this vital lesson uppermost in mind.

Fanshier is giving some very important advice, but it is doubtful that those the message is intended for will listen and respond.

LONG-RUN PROBLEM

The question is sometimes asked or implied "Why did the independent marketers allow themselves to get into such a serious supply situation?"

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Stated another way "Why didn't the independents have the foresight to integrate backwards into refining?" The supply problem of independent marketers is to a considerable degree the long-run consequence of vertical integration and monopoly power in the crude oil market. Over much of the past twenty-five years, crude oil prices have been administered at artificially high levels. With high-priced and non-competitive feedstocks and the prospects for low wholesale prices from integrated competitors, limited economic incentive has existed for making investment in independent refining. In contrast, integrated refineries, owning large quantities of crude oil, have been in a favored position to expand their own refining as a way to utilize their highly profitable crude oil. It follows that independent discount marketers have been forced to become more directly and indirectly dependent upon the major oil companies for supply.

Vertical integration also led to integrated oil companies subsidizing marketing operations. Until recently, marketing investment, like refining, was used to cash in crude oil profits. The subsidizing of marketing with crude oil profit and cash flow led to the tremendous and costly over-investment in marketing that exists today. Even executives of Exxon and other huge integrated oil companies point out that there are two to three times more retail stations than are needed to efficiently serve the public interest. The costly over-investment in marketing would not be anywhere near the problem that it is, had it not been for integration and subsidization of marketing with crude oil profits and cash flow benefits. If marketing was not tied to crude oil, the investment in marketing would be much less and gasoline would be sold to the public on a more efficient basis at a lower price.

It is ironic that the independent discount gasoline marketers are having such difficulties today, for the major integrated oil companies are now attempting, after twenty-five years of heavy subsidization, to put marketing and refining on a profitable basis. With the major oil companies reducing their marketing subsidies, the independents, who have existed without subsidies, should be enjoying a new prosperity and a deeper market penetration because of their much greater efficiency.

Integrated oil companies now desire to make refining and marketing profitable since the crude oil profit haven that they have enjoyed since World War II is eroding. Internationally, foreign governments are increasing crude oil prices and moving to take over the oil fields in their respective countries. In the United States, most of the readily available and low cost oil has already been discovered and that which remains to be discovered is quite costly. The enormously expensive bonus bidding system of leasing properties for oil exploration has also greatly increased the cost of exploration in the U.S. Thus, the financial strategy of the integrated companies must be to put refining and marketing on a profitable basis and to capture more of their earnings from these activities. However, standing in the way of this strategy are the independent discount gasoline marketers and the independent refineries that have operated without subsidies. Therefore, if the integrated companies are to breathe significant profits back into their costly and inefficient marketing system and into their refining activities, the independent must be eliminated as an effective marketing force. The way to stop the independent discount marketers is to reduce or cut off their supplies of finished products. Similarly, the way to damage independent refiners is to cut off their supplies of crude oil. This can be done by refusing to sell or by raising prices to uncompetitive levels. Both are occurring, and the independent marketer and the independnet refiner is in peril of extinction.

CONCLUSION

The performance of the petroleum industry could be greatly improved if the struggling independent sector of the industry were saved. This will occur

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only if Congress acts decisively against the predatory acts of some of the integrated oil companies in cutting off supplies of refined products and crude oil to their traditional independent customers.

For the duration of the supply crisis, the integrated oil companies should be prohibited from selling a larger percentage of their refined products and crude oil through controlled refining and marketing operations than they did during the base period of the first half of 1972, prior to the occurrence of the severe product shortages. The remaining refined products and crude oil would then be equitably distributed and priced to traditional independent customers based upon normal supply relations during the base period. To the extent that independent customers have already been put out of business and cannot be restored, the balance of available product would be proportionately distributed to the surviving independent companies.

Over the long run, the competitive performance of the petroleum industry would be greatly improved by the physical or functional divorcement of crude oil production from other industry activities. Crude oil has been the source of monopolistic power. It has been used to weaken and destroy downstream competitors, including those integrated competitors who are relatively poor in crude oil.

Physical divorcement would mean that crude oil activities would be spun off and run by new and independent companies. Functional divorcement would require integrated oil companies to adopt separate operating and accounting procedures and would require their crude oil activities and their refining and marketing activities to stand on their own respective financial feet.

Both physical and functional divorcement would to varying degrees result in improved public performance of the petroleum industry. One thing that would happen is that the excessive investment in marketing and the high cost of selling would cease. After a period of adjustment there would be perhaps half the number of stations, and the cost of selling gasoline could easily result in prices generally 2¢ per gallon less than present levels. This would mean a saving of about a billion and a half dollars a year.

In summary, the imperiled condition of discount marketers and refineries in the short-run can be remedied by the proper legislation or by governmental decree. For the duration of the supply crisis independent marketers and refineries should obtain their fair share of product based upon historical relationships with their suppliers and the product should be available at competitive prices for the different classes of customers. The long-run solution to the problem of unfair competition with independents from integrated oil companies can be solved by divorcement of crude oil. While the performance of the petroleum industry would improve most with physical divorcement of crude oil from the remainder of the industry activity, the less severe functional divorcement—accounting, operational and financial—would do some good and wouldn't be hard to implement. At the very least the government should seek functional divorcement to decrease the likelihood of the continuation of high administered crude oil prices that squeeze downstream competitors and that distort the normal competitive processes in the petroleum industry.

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Figure 1

Average weekly prices for major and private brand gasoline in Los Angeles from 1969-April 22, 1973

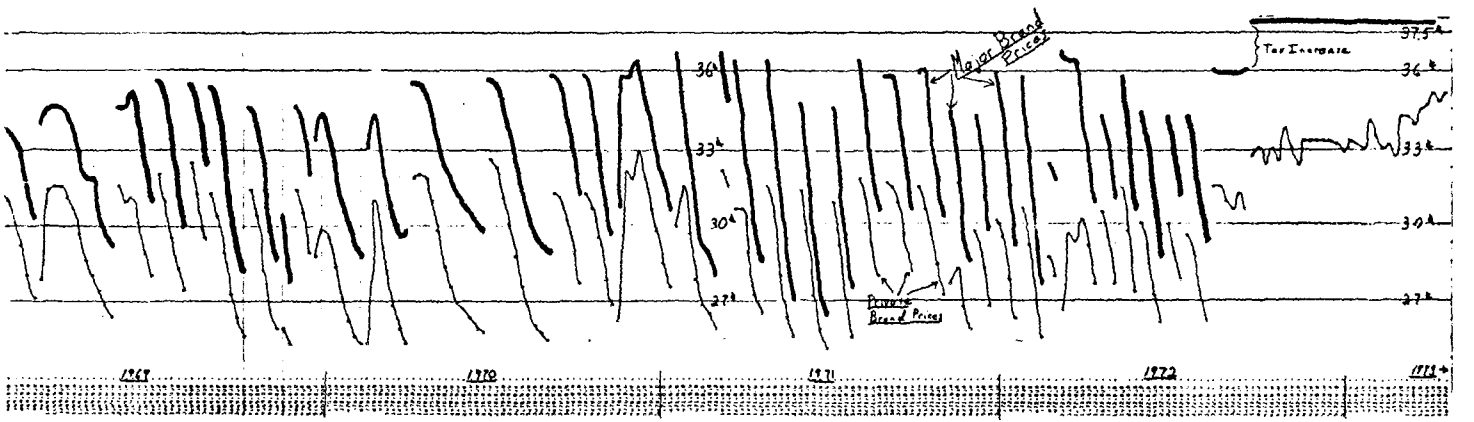

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Figure 2

Average weekly prices for major and private brand gasoline in Portland, Oregan from 1971-April, 1973

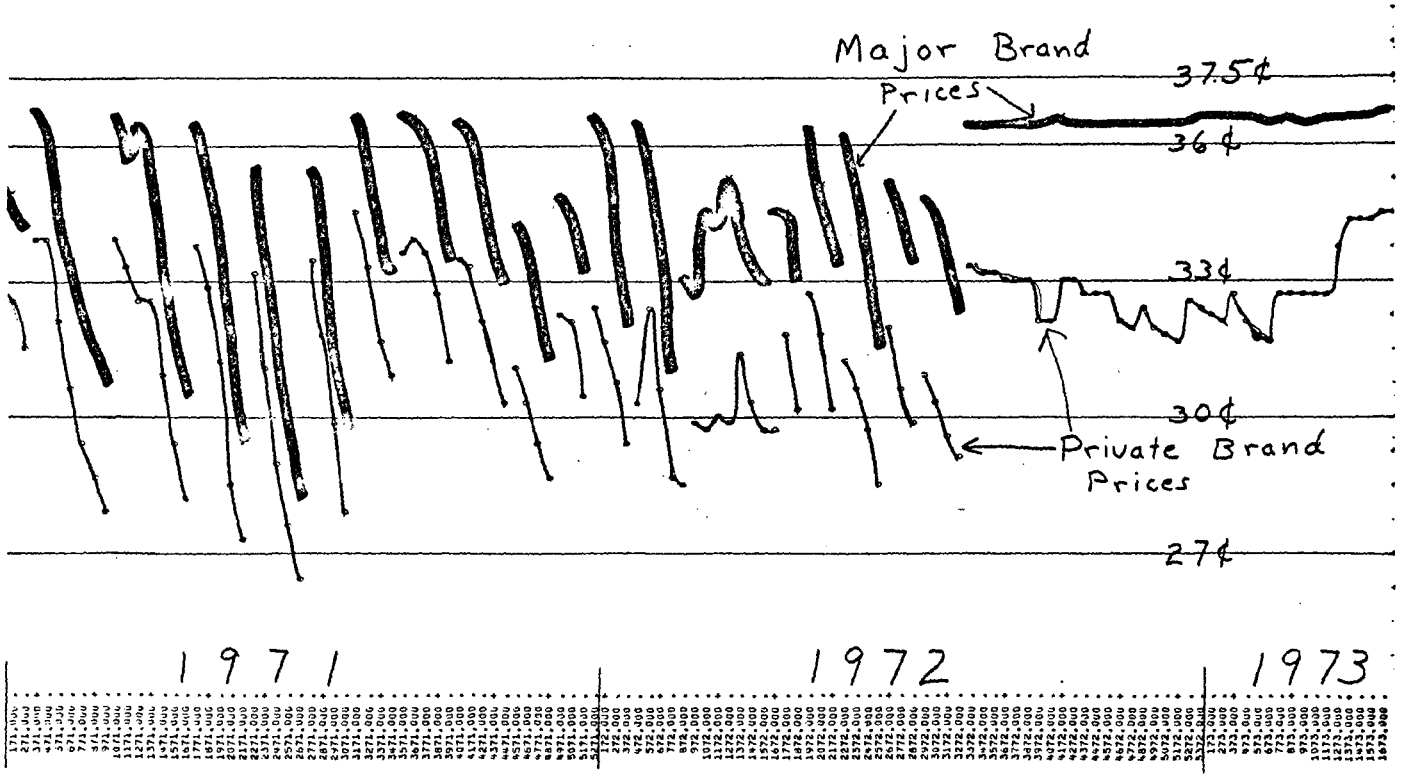

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Figure 3

Average weekly prices for major and private brand gasoline in Seattle, Washington from 1971-April, 1973

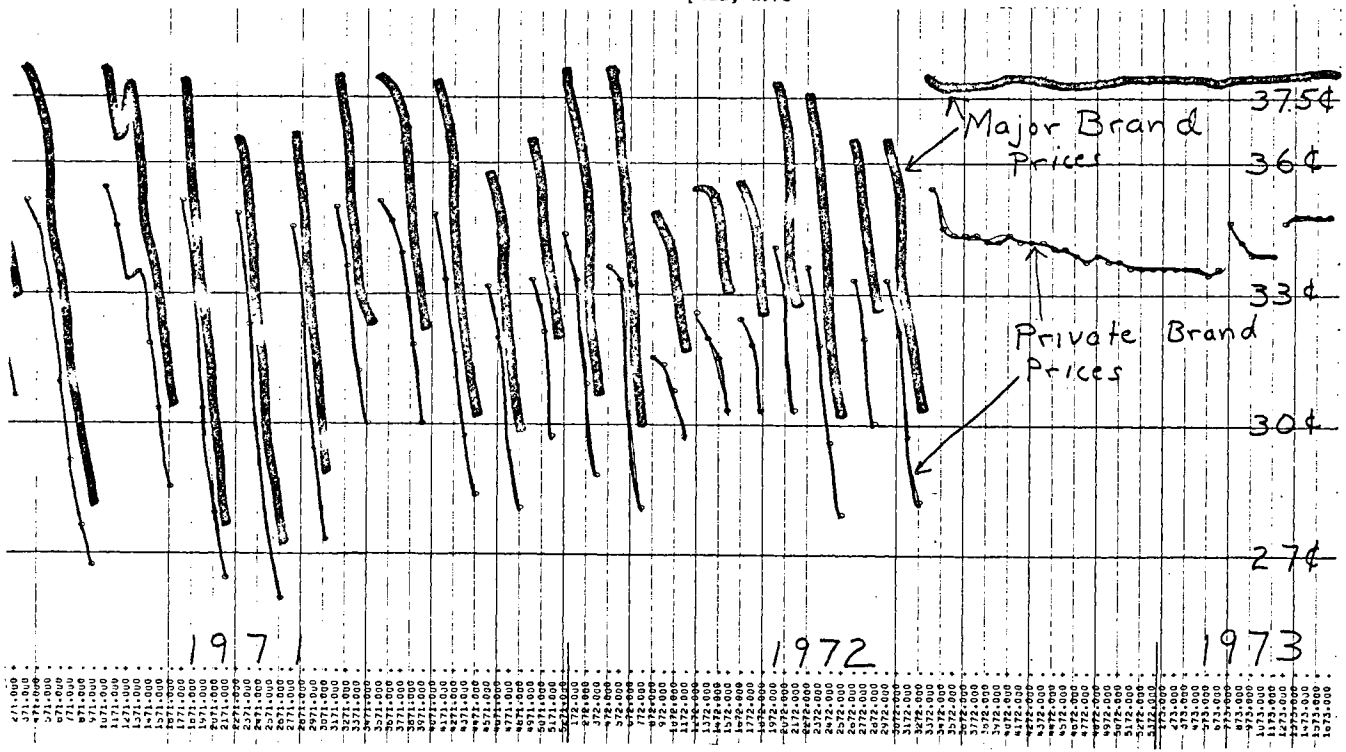

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Figure 4

Average weekly prices for major and private brand gasoline in Phoenix, Arizona from 1969-April 22, 1973

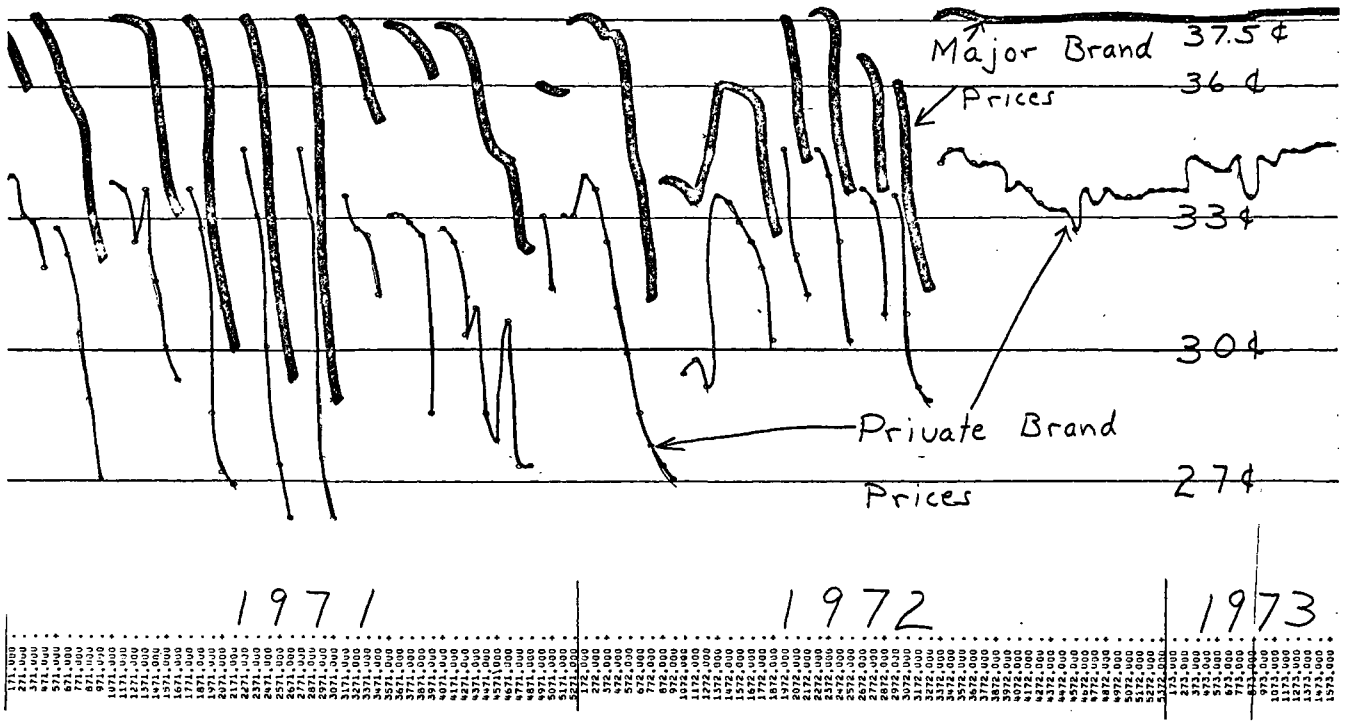

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Figure 5

Average weekly prices for major and private brand gasolines in Boise, Idaho from 1969-April 22, 1973

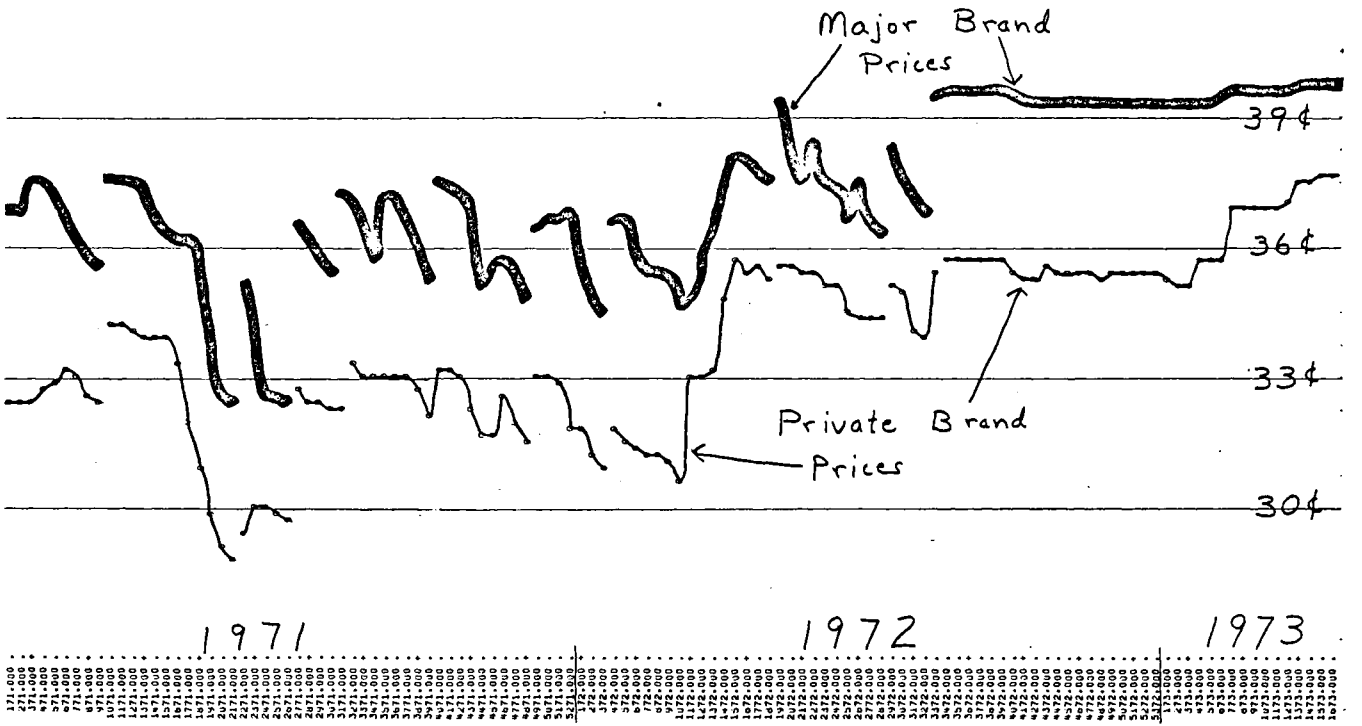

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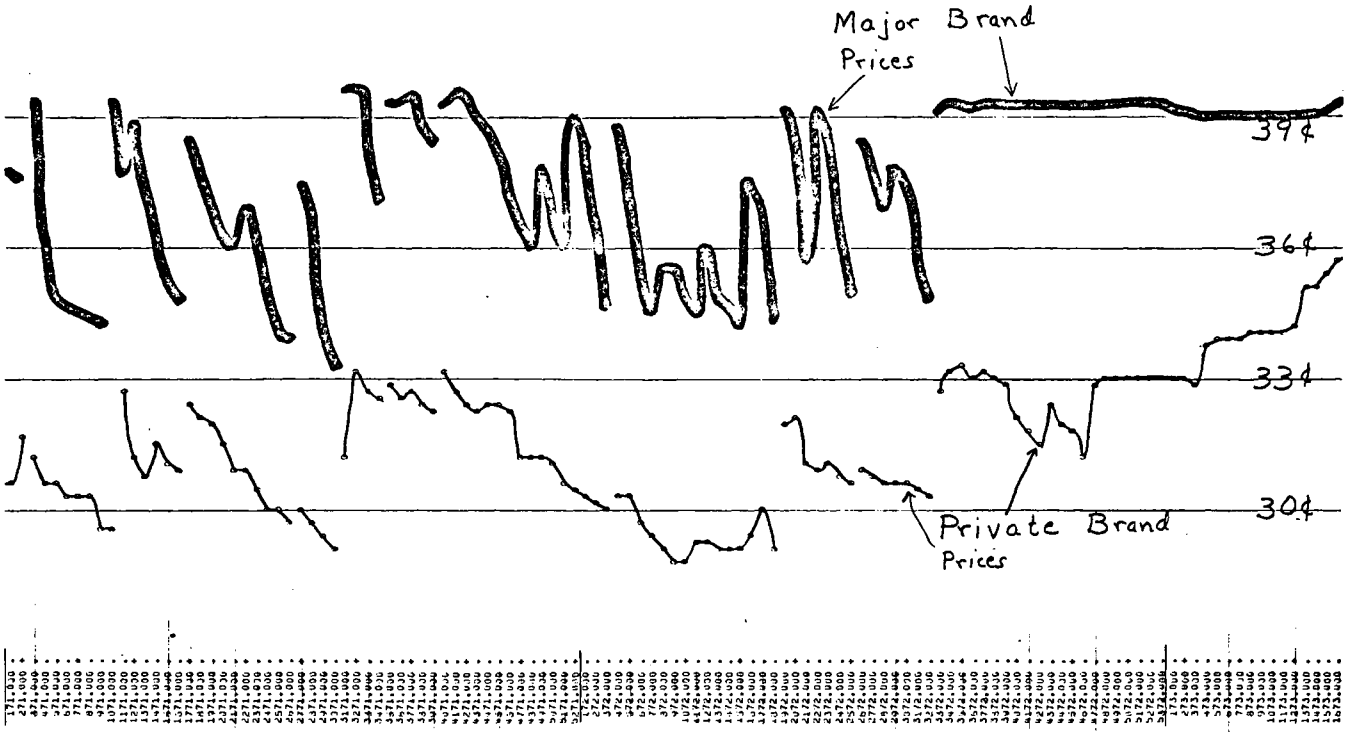
Figure 6

Average weekly prices for major and private brand gasolines in Nevada from 1969-April 22, 1973



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MARKETING RUMORS FLY ON PRICING CONTROLS

HOUSTON.—A rumor that Phase III of the price control program will be announced Tuesday, Aug. 15, swept the marketing segment of the petroleum industry at weekend.

It found dealer tankwagon and rack prices for gasoline already on the upturn because of widening fears of a supply crisis.

Distillate prices also are clawing at ceilings some marketers describe as too low to permit restoration of depleted stock to the level needed this winter.

One version of the unconfirmed Phase III rumor was that President Nixon will make an Aug 15 speech emphasizing petroleum products prices, especially those for gasoline.

It was conceded that 1) the rumor may have arisen from the fact Aug 13 was the first anniversary of the base period for gasoline price controls, thus a likely time for further announcements, and 2) it might help rather than hinder the latest wave of reductions and eliminations of temporary competitive allowances.

A southeastern marketer was among those moving wholesale dock, or rack, prices to levels considered ceilings. This marketer lifted regular and premium gasolines at all its Florida terminals and at Mobile and Montgomery, Ala, to 13 cents and 15 cents a gallon, respectively, from 12.5 and 14.5 cents. Prices at Birmingham and Anniston, Ala, went up one quarter cent to 12.75 and 14.75 cents.

TCA adjustments by major suppliers appeared to be taking two principal patterns; total withdrawals as by Mobil, Kyso, Texaco and Phillips; and partial reductions, generally to 1.4 cents a gallon, with 2.1 cents maximums in a few states.

Moves toward full normal tankwagon prices appeared to be gaining ground, however. Humble, for example, in moves Aug 8 and 9, eliminated TCA's in Texas, Louisiana, New Mexico, Nevada and Arizona and imposed limits said "generally" not to exceed 1.4 cents in other areas except Indiana, where the maximum was 2.1 cents. Then it issued an order effective Aug 10 withdrawing allowances in California, Oregon, Washington and western Idaho.

Kyso's total withdrawal, dated Aug 11, affected its entire marketing territory—Georgia, Alabama, Kentucky, Mississippi and Florida.

A Thursday report Amoco had joined the "full normal" group was denied by a spokesman, who said it evidently based on expansion of the company's adjustment to cover its full marketing territory. This was accomplished by trimming TCA's to 1.4 cents in its Baltimore and Atlanta regions, serving the eastern U.S., and withdrawing them completely in Ohio. West Coast supports also were eliminated.

Independent marketers began falling into step with the majors at an early hour. Diamond Shamrock was among the first, going back to full maximum prices under its ceilings as of Aug 8. Derby and Checker followed soon after.

Strong independent movements toward "normal" prices were reported in Indiana, Pennsylvania and Florida. Private branders and unbranders found four of 12 majors serving Florida back at full normal and the remaining eight limiting support to 1.4 cents.

Some restorations were reported in Michigan.

An independent marketer said word finally has filtered to the "wilder" marketers that gasoline might no longer be readily available for volume selling based on price-cutting.

"However, the self-serves undoubtedly still will be something of a problem," he added.

In the state of Ohio, Sohio has lifted retail prices for regular and premium gasoline to "full normal" levels of 37.9 and 41.9 cents a gallon and has withdrawn supports in the tri-county (Detroit) area of Michigan. In the outstate southern Michigan area, new suggested retail prices are 35.9 and 39.9 cents in Detroit and 36.9 cents outside.

Field reports indicate Sohio's Boron service stations in western Pennsylvania were at 37.9 and 41.9 cents at weekend.

Citgo eliminated all temporary competitive allowances in Illinois, Wisconsin and Indiana at the opening of business Friday. It had cut them earlier in the week to 1.4 cents a gallon in Illinois and Wisconsin and to 2.1 cents in Indiana.

Senator MCINTYRE. Thank you very much, Professors Allvine and Tarpley.

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We call as our next witness a panel of Roy Mason, president of Romaco, Inc., accompanied by Lewis G. Odom, counsel, from Alabama; Fred Lichtman, president, Society of Independent Gasoline Marketers of America, and R. J. Peterson, Independent Gasoline Markets Council.

I am glad to welcome you gentlemen here this morning. If you will come up to the witness table and take your positions. If you have anybody accompanying you, please introduce him as soon as you have a chance.

I believe we have statements from all of the witnesses. I do not want to impinge on your opportunity to testify and state your case here, but we do have a time problem. I am going to call you in order, Mr. Mason, Mr. Lichtman and Mr. Peterson. Anything you can do to condense your statements, I would appreciate that and I am sure the committee would.

In any event, your statements will be included in the record in their entirety.

STATEMENTS OF ROY MASON, PRESIDENT, ROMACO, INC., ALABAMA; ACCOMPANIED BY LEWIS G. ODOM, COUNSEL, FRED LICHTMAN, PRESIDENT, SOCIETY OF INDEPENDENT GASOLINE MARKETS OF AMERICA; AND R. J. PETERSON, INDEPENDENT GASOLINE MARKETS COUNCIL

Mr. MASON. I am Roy Mason, president of Romaco, Inc., Montgomery, Ala. With me is my counsel and friend, Lewis Odom who is also from Montgomery.

I appreciate the opportunity you are giving me to participate in this hearing looking into the crisis in the oil industry.

I am an independent marketer. I began my business almost 20 years ago in Mobile, Ala., where I operated one service station. I grew slowly, but steadily until today I now own, operate or supply over 150 independent service stations in Alabama and the surrounding States to which I distribute 100,000 barrels per month or 4.2 million gallons of gasoline.

I operated in my business as a sole proprietorship until several years ago when I incorporated as Romaco, Inc.

Customarily we picked up our supply at the pipeline terminals in Montgomery and Birmingham. Our primary source of supply for the last 7 years has been Crown Central Petroleum Co. However, over the years we have had a number of opportunities to leave Crown Central and go with other suppliers.

However, I recognized my good relationship with Crown Central and we continued with them until they were forced to terminate us as of the 15th of April.

Senator MCINTYRE. That is this year?

Mr. MASON. Yes, sir.

Prior to that time, there was a series of reductions by Crown Central until we were finally zeroed last month.

When it became apparent that the independent marketers were in jeopardy, we began to look for alternative sources of supply. This

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was about a year ago. Such additional sources that we were able to obtain have cut us off and we are now virtually out of gasoline.

It would take far too much of this committee's time for me to catalog every effort I have made over the past year and specifically within the last 90 days to obtain gasoline in order to save my business and all those who depend on us, particularly the consumers who were able to buy gasoline at a lower price.

Suffice to say, however, that I have talked to every major oil company that I could approach, every independent and many crude oil producers. I have visited with my elected representatives. I have done everything I know to do and to no avail.

I realize that I am not unlike other independents but I think it is important that you know some of the specifics about my experience to understand better what confronts them and what it will take to help us all.

The simple fact is that unless a marketer either has a contractual standing with a major oil company or a supply of domestic crude oil, there is no way he can get gasoline unless he can buy it on the black market from major oil jobbers.

I have in my hand a ticket, an import license enabling me to import over 300,000 barrels of finished product. It is worthless to me.

Senator McIntyre. Where is it?

Mr. Mason. Here.

Senator McIntyre. We have talked about those tickets for the last 5 years. I have never seen one.

Mr. Mason. This is a copy.

Senator McIntyre. Thank you.

Mr. Mason. In the first place, I do not know one thing about the import market and I must rely on others to tell me. I am told that gasoline landed in east coast ports is 21 to 22 cents a gallon. After adding the tax of 12 to 13 cents plus freight, there is no way we can effectively market this gasoline.

Now, unless we can obtain crude oil which will give us something to exchange for gasoline, there is little that we can do. Therefore, I went about the business of trying to buy some crude oil. I located one source which could make available to me 10,000 barrels a day at a premium price. That crude oil is currently being sold, although not under contract, to a major oil company.

In an effort to work out an exchange of this crude oil to gasoline, we quickly learned that no one was willing to make an exchange involving crude oil that would ultimately be taken away from this major oil company.

To put it bluntly, at the present time the major oil companies are virtually in control of this industry. With little exception they control production, refining and marketing. Unless the independent marketer who does not have a contract with a major oil company, can get his hands on some crude oil which is not likely going to a major oil company or, unless the Government can obtain some gasoline and distribute it to the independents, then the consumer is no longer to have the option of buying his gasoline from an independent marketer.

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He is going to get a full service station, with all the trimmings and expenses whether he wants it or not. I might add that many of these trimmings are being offered by enterprising independents without the additional charges.

I have suggested two ways in which we may be helped. Let me discuss the first one—crude oil.

At the present time the United States is receiving or is entitled to receive approximately 54,000 barrels of crude oil as a royalty on outer continental shelf production. This would produce 40 million gallons of gasoline per month.

We call this royalty oil. At the moment the Secretary of the Interior is authorized to allocate this royalty oil to small business refiners. Unless the small independent markets have some contractual relationship with a refiner, this is of no help to the marketer. I know of no reason why this oil should be reserved to help the refiner and not the marketer. The regulations provide that the small refiner may exchange this crude oil for other oil to be used in his refinery.

There is no reason why marketers should not be made eligible to purchase royalty oil so long as they are going to exchange it for finished products to be sold by them.

Consequently, I suggest that the Secretary of the Interior take immediate action to enable small business marketers to purchase royalty oil upon a showing of agreement to exchange the oil for gasoline.

There is another source of crude oil that could be used to provide gasoline for the independent marketers, that is, foreign crude.

It happens that most of the independent refiners upon whom a great majority of the independent marketers rely for their supply are unable because of the makeup of their refinery to process foreign crude oil. Most crude oil has a high content of sulphur and is commonly known as sour crude. Most domestic crude has a low content of sulphur and is known as sweet crude oil.

Independent refiners use domestic or sweet crude while the refiners who can use the sour crude are owned by the major oil companies.

Therefore, licenses to import foreign crude are meaningless to the independent refinery unless they can exchange this crude oil for sweet crude which they can process in their refineries.

In the past, such exchanges were made routinely and the independent refiners were able to get by with the exchanged crude oil which they could refine now in their plants.

However, at this time the major oil companies refuse to exchange and consequently, the independents are operating at far below their capacity.

Some leverage can be brought by the Government—and should be—to encourage the majors to exchange with the independents so that some 316,000 barrels a day of unused refining capacity can be put in operation, and the gasoline made available to the independent marketer and the consuming public.

I also have another page here but in the interest of time, I will stop here and allow this to be put in the record.

Senator McIntyre. I will yield to the Chairman, Senator Sparkman.

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The CHAIRMAN. Thank you, Senator McIntyre. I know something about the story that Mr. Mason has been relating because it has been running now for some time.

You said you were zeroed in April, right?

Mr. MASON. Yes.

The CHAIRMAN. Does that mean cut off completely?

Mr. MASON. Cut off completely.

The CHAIRMAN. What happened to your stations?

Mr. MASON. I am closing them at the rate of about 50 a week. We closed 58 service stations yesterday prior to leaving Montgomery, Alabama to come to Washington.

The CHAIRMAN. I happen to know, Senator McIntyre, that he has made a tremendous effort throughout the country to get a supply of gasoline. In fact, I have talked with a number of the major companies myself. He has been unable to get supplies. Why is that some practical method cannot be worked out whereby this crude oil that you are licensed to buy—by the way, the ticket that you had, is that for foreign crude or domestic crude?

Mr. MASON. That is not for crude oil. They will not issue to me a license for crude oil because I am not a refiner. That is a ticket to import finished product.

The CHAIRMAN. To import the finished product?

Mr. MASON. Gasoline.

The CHAIRMAN. Import it from where?

Mr. MASON. Even if it were crude oil, I could not do anything with it. I could not get the processor to refine the 10,000 barrels a day I could buy.

The CHAIRMAN. As a matter of fact, they did have a system, did they not, of issuing tickets for crude oil?

Mr. MASON. No, sir. I do not think they have a system for issuing crude oil tickets to a marketer. I think that is reserved for a refiner.

The CHAIRMAN. Sometime back I talked with Mr. Simon on this subject.

Mr. MASON. Yes, sir, but that was in reference to this——

The CHAIRMAN. I was thinking he told me that the proclamation that he was drafting for the President to sign and provide—I thought it was tickets for foreign crude which you in turn could take for domestic crude.

Mr. MASON. That did not materialize as far as we were concerned. As far as I am concerned, at any rate, it did not materialize.

Mr. ODOM. Senator, what he may have had reference to was a license for refiners to import crude, but the difficulty is, as Mr. Mason has pointed out in his statement, the independent refiners who have the excess capacity in their refining facilities are unable to use foreign crude because of its high sulfur content. So, consequently, the only way they can use that foreign crude is to exchange it with someone who has domestic crude oil that they can put into their plant.

Now, the major oil companies pretty well control the domestic crude oil. So, unless they will exchange that domestic crude oil for the foreign crude oil, these tickets even for crude oil are just worthless.

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The CHAIRMAN. I think that is in line with what I understood it to be. I may say, Senator McIntyre, as you know, Mr. Odom was for 7 years the staff director of this committee.

Senator MCINTYRE. I never recognized him with his glasses on.

The CHAIRMAN. When you reach a certain stage, you take on an appearance of anonymity.

Mr. ODOM. It is my long hair, Senator.

The CHAIRMAN. You know, too, that he was staff director of the Small Business Committee.

Senator MCINTYRE. I worked with him and had a high regard for Mr. Odom.

I expect him to be back as a Congressman some day.

The CHAIRMAN. He was my administrative assistant for several years.

Senator MCINTYRE. And that is enough to recommend him there.

The CHAIRMAN. Do you have any practical suggestions as to how we could do something to help this situation.

Mr. MASON. To help me, some emergency situation is going to have to be developed within the next few days. I am out of business.

The CHAIRMAN. I know. But what, and how?

Mr. MASON. If I could be made available this crude oil that the Government owns, this royalty crude that they are receiving from the major oil companies for having drilled in the shelf out there—as I understand it now, the major oil companies are giving the Government money and they are refining this oil and using it themselves. But this is 54,000 barrels a day which on a 66 percent return on crude oil-gasoline after it is refined could produce 40 million gallons a month for distribution to independents.

The CHAIRMAN. You are talking about oil drilling on the Continental Shelf?

Mr. MASON. Yes.

The CHAIRMAN. Done by the Government or under contract with the companies from the Government?

Mr. MASON. By major oil companies under contracts with the Federal Government.

The CHAIRMAN. And the Federal Government has the right to let them pay that in cash or in royalty oil, is that right?

Mr. MASON. Yes, sir.

The CHAIRMAN. Your suggestion is that the Government take it in royalty oil and make it available to whom?

Mr. MASON. To me.

The CHAIRMAN. Is that gasoline or is that crude oil?

Mr. MASON. I will take the crude oil and get it refined. I have a refinery that will take the crude oil and refine it and give me back the gasoline.

The CHAIRMAN. What is to prevent the Government from doing it? Who does that, the Department of the Interior?

Mr. MASON. The Department of the Interior.

The CHAIRMAN. Is there any reason why they should not be able to do that on a reasonable basis?

Mr. MASON. No, sir, I see no reason at all.

The CHAIRMAN. Mr. Chairman, that might be a suggestion.

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Senator McINTYRE. Very definitely.

Mr. Simon will be here Thursday and we will ask him in detail as to why he cannot do that. Are you unique, are you just one that it zeroed?

Mr. MASON. No, I am not unique. There are others that have been cut completely out.

Senator McINTYRE. Are there any others in Alabama?

The CHAIRMAN. I think he had Alabama wrapped up.

Mr. MASON. There are some in Alabama, some of the people who were supplied along with me by Crown Central when they had to zero everybody out.

The CHAIRMAN. By the way, what happened to Crown Central, were they zeroed, too?

Mr. MASON. On crude oil they were. The major oil companies cut them off on the back side, cut the crude oil off. Crown Central is an independent refiner. They do not own much crude oil. They had depended for years on buying their crude oil from major oil producers.

The CHAIRMAN. What are they doing now?

Mr. MASON. They are doing the best they can, Senator, just kind of crippling along. Really and truly, I do not know what they are doing. I think they are doing just the best they can.

Senator McINTYRE. Senator Johnston.

Senator JOHNSTON. You mean Crown Central, a refiner, when we are in as much need and have as big a shortage as we do having refining capacity, they cannot get crude?

Mr. MASON. No, sir, that is right.

Mr. ODOM. The reason for that is they can only refine domestic crude oil, the sweet crude.

Senator JOHNSTON. Can't they convert?

Mr. ODOM. In the past when they got these tickets for crude oil, they could exchange it with the majors, and the majors would import the foreign crude and refine it in their refineries, where they could use it and the domestic crude would go to the independent refineries, such as Crown Central. But the majors will not exchange it any more. They say we can use all the domestic crude oil we have got and we do not have any to exchange with you. So, we can import the crude oil, but the refiners are not geared up to use it.

Senator JOHNSTON. It is economically nonfeasible for him to convert to sour crude?

Mr. MASON. We are talking about a year or 2 years to do this, and the reason—I might interject is this, the reason that the majors are a little bit unwilling to exchange those tickets and take foreign crude and relieve the sour crude is the fact that there is a difference in the price.

The domestic price is lower than the foreign price.

Senator JOHNSTON. Did I understand you to say that unless you have a contract or a supply of domestic crude, that there is no way for you to get the gasoline?

Mr. MASON. There is not any way whatsoever to get gasoline at this time.

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Senator JOHNSTON. Does that apply to all the other independents as well?

Mr. MASON. I am not sure I understand all the ramifications of all the other independents, but I will speak for a good majority of the independents in the areas where I operate. They are in the same shape; yes, sir.

Senator JOHNSTON. All those who have contracts, those contracts will expire I am sure fairly soon.

Mr. MASON. They usually run on a yearly basis. One of the big things is everybody I have talked to majors and independents alike, and everything that has a supply of gasoline has the same story, they say we will not take on any new customers.

Senator JOHNSTON. Those that they have already got, those who are on a yearly contract and those contracts are going to expire in December, will they renew those contracts with those individuals?

Mr. MASON. I have no knowledge of whether they will or not.

Senator JOHNSTON. You say there is no way to sell imported gas because you would have to pay 21 cents for it at the port of embarkation, is that right?

Mr. MASON. Yes.

Senator JOHNSTON. You can get refined products, you can import it?

Mr. MASON. I have not been able to get any.

I have got a ticket to import it, but I have not been able to find any that was for sale for me.

Senator JOHNSTON. You cannot find any refined product to buy?

Mr. MASON. No, sir. Not imported product. There is some gasoline being sold, imported gasoline being sold in the New York Harbor for 24 and 25 cents. This was reported to me. I did not see the sales slip, but this was reported to me.

Senator JOHNSTON. Who is reporting that?

Mr. MASON. I do not know. This information came to me from a broker whom I contacted at Houston, Tex.

Senator JOHNSTON. How much would it cost you to buy gasoline from a refiner?

Mr. MASON. About 14.5 cents.

Senator JOHNSTON. As opposed to 21 to 24 cents if you bought it from a broker in New York?

Mr. MASON. Yes, sir.

I think you would liken this to a hurricane, hitting the Gulf coast and a run being made on the available grocers in the area. The grocer could charge any price he would want because of the frantic situation that he would be in at that time.

I would liken this situation to that as an analogy of how this looks.

Senator JOHNSTON. Thank you very much.

Senator MCINTYRE. I had never realized—is it true that most of the independent refiners are not as sophisticated as the type I saw out in Bellingham, Wash. several weeks ago, Arco's plant out there? They were handling sulfur content of 5 percent at the time.

Mr. ODOM. I do not pretend to be an expert on it. Some of these gentlemen that follow Mr. Mason may be. My information from dis-

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cussing this with one of the major independent refiners is that most of the independents are simply not geared up to handle crude oil with a high content of sulfur. That is just a general statement, but I think it is a fair and accurate statement.

Senator McIntyre. I would just like to give the committee a little idea of the type of contract clause that is currently being issued—this happens to be an example, it is not meant to in any way downgrade Texaco—and I will just read the first line of this clause and I will insert the balance in the record. This is the type of contract being signed today:

In the event seller's capacity to perform as to all or some of its customers, including buyer, as to all or any of the products covered by this agreement, becomes impracticable in seller's sole judgment for any reason whatsoever, seller shall be relieved of its obligation to perform here-under and shall not be liable for damage or otherwise obligated to buyer by reason of any delay or non-delivery in whole or in part.

The rest we will put in the record.

[The information follows:]

In the event Seller's capacity to perform as to all or some of its customers, including Buyer, as to all or any of the products covered by this agreement, becomes impracticable, in Seller's sole judgment, for any reason whatsoever, Seller shall not be relieved of its obligation to perform hereunder and shall not be liable for damages or otherwise obligated to Buyer by reason of any delay or non-delivery in whole or in part. Seller shall seasonably notify Buyer in writing of its lack of capacity to perform by mail addressed to Buyer. In such notification Seller shall advise Buyer the quantities, if any, Seller will be able to supply Buyer in the foreseeable future. Buyer shall be obligated to purchase such reduced quantities where Seller has advised Buyer that such reduced quantities are available unless Buyer within a reasonable time notifies Seller that it desires to terminate this agreement in which event such agreement shall thereupon terminate. Nothing herein shall be construed to extend the contract period beyond the term provided for in this agreement or to relieve either party of its obligation to pay, when due, any amounts which have accrued hereunder or pursuant hereto.

Senator Johnston. I have one question.

How would you distribute this 40 million barrels of gasoline a month if we made it available to the independents?

By bid or what?

Mr. Mason. By history, the history, the way it has been handled in the past, the history of the market.

Mr. Odom. Senator, let me respond to that.

In other words, each marketer, will have developed over a period of time a history of how much he has been marketing and that would establish him within the industry at some percentage. Then he could make application for the royalty oil upon a showing that he had an exchange agreement for gasoline based on the history. He would have to show just exactly how much gasoline he had marketed over the past 3, 5, or 7 years, whatever was decided upon by the administrative agency.

He would make application to purchase the royalty oil.

Senator Johnston. At what price?

Mr. Odom. I suppose it would be the price set by the Secretary of the Interior, which is established by the market. They have a daily price. We have information we could put in the record that shows the daily price that the majors pay the Government for this royalty

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oil. So, the Government then could take the royalty oil in kind and then sell it for the price they would otherwise get for it.

Senator JOHNSTON. How do they establish that daily price?

Mr. ODOM. I do not know, sir. I just do not know.

Senator JOHNSTON. Thank you.

Senator MCINTYRE. That is a good question to ask Mr. Simon.

Mr. Mason, one last question.

On April 15 you were operating 150 independent stations in the State of Alabama?

Mr. MASON. No, sir. I had dwindled away because we had been put on allocation over a period of time. We were cut off by Crown Central in Montgomery, Ala. because they had an exchange with a major oil company who had cut them off. They were cut off and they consequently had to cut me off because it was on an exchange where they were taking crude in one place and selling me gas in another place.

Senator MCINTYRE. How many outlets do you have operating today?

Mr. MASON. They are all running out of gas but I would say about 45.

Senator MCINTYRE. None with any gasoline?

Mr. MASON. They have some gasoline in their stores.

[The complete statement of Mr. Mason follows:]

STATEMENT OF ROY MASON, PRESIDENT, ROMACO, INC., MONTGOMERY, ALA.

I am Roy Mason, President of Romaco, Inc., Montgomery, Alabama. With me is my counsel and friend Lewis Odom, who is also from Montgomery.

I appreciate the opportunity you are giving me to participate in this hearing looking into the crisis in the oil industry.

I am an independent marketer. I began my business almost 20 years ago in Mobile, Alabama, where I operated one service station. I grew slowly, but steadily until today when I now own, operate or supply over 150 independent stations in Alabama and the surrounding states. I operated my business as a sole proprietorship until several years ago when I incorporated as Romaco, Inc. Customarily, we picked up our supply at the pipeline terminals in Montgomery and Birmingham. Our primary source of supply for the last seven years has been Crown Central Petroleum Company. However, over the years we have had a number of opportunities to leave Crown Central and to go with other suppliers. However, I recognized my relationship with Crown Central and we continued with them until they were forced to terminate us the 15th of April. Prior to that time, there was a series of reductions by Crown Central until we were finally zeroed last month.

When it became apparent that independent marketers were in jeopardy, we began to look for alternative sources of supply. This was about a year ago. Such additional sources that we were able to obtain have cut us off and we are virtually out of gas.

It would take far too much of this committee's time for me to catalogue every effort I have made over the past year and specifically within the last ninety days to obtain gasoline in order to save my business and all those who depend upon us, particularly the consumers who were able to buy gasoline at a lower price.

Suffice it to say,, however, that I talked to every major oil company that I could approach, every independent and many crude oil producers. I have visited with my elected representatives. I have done everything I know to do, to no avail. I realize that I am not unlike other independents, but I think it is important that you know some of the specifics about my experience to understand better what confronts them and what it will take to help all of us.

The simple fact is, that lnless a marketer either has a contractual standing with a major oil company, or a supply of domestic crude oil, there is no way

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he can get gasoline unless he can buy it on the black market from major oil jobbers.

I have in my hand a ticket, an import license, enabling me to import over 300,000 barrels of finished product. It is worthless to me. In the first place. I do not know anything about the import market and I must rely upon what others tell me. I am told that gasoline landed in east coast ports is 21 to 22¢ a gallon. After adding the tax of 12 to 13¢, plus freight, there is no way we can market this gasoline. Unless we can obtain crude oil which will give us something to exchange for gasoline, there is little we can do. Therefore, I sought about the business of trying to buy some crude oil. I located one source which could make available to me 10,000 barrels a day at a premium price. Crude oil is currently being sold, although not under contract, to a major oil company. In an effort to work out an exchange of this crude oil for gasoline, we quickly learned that no one was willing to make an exchange involving crude oil that would ultimately be taken away from this major company. To put it bluntly, at the present time, the major oil companies are in virtual control of this industry. With little exception, they control production, refining and marketing. Unless the independent marketer who does not have a contract with a major oil company can get his hands on some crude oil which is not already going to a major oil company, or unless the Government can obtain some gasoline and distribute it to the independents, then the consumer is no longer to have the option of buying his gasoline from an independent marketer. He is going to get a "full service station" with all the trimmings and expenses whether he wants it or not. And I might add, that many of these trimmings are being offered by enterprising independents without the additional expense.

I have suggested two ways in which we may be helped. Let me discuss the first one—crude oil.

At the present time, the United States is receiving or is entitled to receive approximately 54,000 b/d of crude oil as a royalty on outer continental shelf production 40 million gallons of gas per month. We call this royalty oil.

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Consequently, I suggest that the Secretary of the Interior take immediate action to enable small business marketers to purchase royalty oil upon a showing of an agreement to exchange the oil for gasoline.

There is another source of crude oil that could be used to provide gasoline for the independent marketer, that is, foreign crude. It happens that most of the independent refiners, upon whom a great majority of the independent marketers rely for their supply, are unable because of the make-up of their refinery to process foreign crude oil. Most foreign crude oil has a high content of sulphur and is commonly known as sour crude. Most domest crude oil has a low content of sulphur and is known as sweet crude oil. Independent refiners use domestic or sweet crude while the refineries that can use the sour crude are owned by the majors. Therefore, licenses to import forign crude oil are meaningless to the independent refiners unless they can exchange this crude oil for sweet crude which they can process in their refineries. In the past, such exchanges were made routinely and the independent refiners were able to get by exchange crude oil which they could refine in their own plants. However, at this time, the major oil companies refuse to exchange and, consequently, the independents are operating at far below capacity. Some leverage can be brought by the government—and ought to—to encourage the majors to exchange with the independents so that the some 310,000 b/d of their unused refining capacity can be put in operation, and the gasoline made available to the independent marketer and the consuming public.

Now I would like to turn to another alternative available to the Government, that is, the allocation of resources. Under the Economic Stabilization Act, I understand that the President is authorized to allocate petroleum products. Therefore, I would hope that the President would take immediate action to provide some kind of pooling through the Government sources so that gasoline

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would be available to the independent marketer. There are a number of ways, of course, that this could be accomplished. The Small Business Administration, or some Government agency, could establish a pool by purchase and supply eligible marketers through existing pipelines.

In addition, we, and other marketers, I am sure, in our situation, need some assistance in utilizing import licenses. Someone, whether on the oil and gas board or, perhaps, the Small Business Administration, should be assigned the responsibility of working with small marketers such as myself in arranging a way, if there is one, by which we can utilize our import licenses in order to stay in business and to continue to offer a lower price.

We believe that we have greatly influenced the purchasing practices of the consuming public in Alabama and our surrounding area, and we think this has been good. We have pushed the self-service stations which enable the automobile owner to wait on himself if he wants to. By doing so, and by introducing as efficient an operations as possible, we have been able to sell gasoline to the consumer at a considerable savings. Our major oil company competitors have felt this competition, and they have moved to meet it by introducing self-service facilities of their own. However, we can handle the competition as we come to it and we believe we will be sufficiently innovative and flexible in our decision making to continue a prosperous business. However, we can not do so if our source of supply is suddenly taken away from us. This is through no fault of ours. It is a failure of the distribution system of the industry itself and one that only Government can handle.

We appreciate your interest in our behalf and we wish to thank you again for the opportunity of appearing before you.

Senator McINTYRE. We will move on now to Mr. Fred Lichtman, president of the Society of Independent Gasoline Marketers of America.

STATEMENT OF FREDERICK LICHTMAN, PRESIDENT, SOCIETY OF INDEPENDENT GASOLINE MARKETERS OF AMERICA

Mr. LICHTMAN. I will eliminate the introduction in the interest of time and just tell you that SIGMA is a trade association representing 210 private brand marketing companies which operate approximately 20,000 service stations in the United States. SIGMA member companies are small businesses but they employ thousands of people, pay substantial State and Federal taxes on their sales, and, prior to recent cutbacks in available supply, marketed in excess of 18 billion gallons of gasoline per year.

In recent weeks you have read in the press and undoubtedly heard from your private brand gasoline marketer constituents that individual companies in several States are suddenly threatened with bankruptcy or substantial economic loss because they have been denied access to their historic share of available supply by the private brand segment of the industry.

Available data indicates the situation is growing more serious with each passing day and statistics valid today are obsolete tomorrow. It is a tangible fact that independent gasoline retailers have been forced to close their stations or operate on substantially reduced schedules of service to the consuming public. If relief is not obtained soon, a substantial number of private brand gasoline marketers will be forced out of business, thereby reducing the only competitive force in gasoline marketing.

We hope that this committee, after development of the facts, as you propose to do in these hearings, will lend its support to immediate legislative and executive branch action to achieve, in the short term,

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the result necessary to preserve the independent private brand segment of the industry. A way must be found immediately to fairly spread the burden of the present shortage between the integrated major brand companies and the independent private brand segment.

The present situation where the majors take all they have or all they need and cut off supplies to independents cannot be tolerated. It is not the public interest or in the interest of the individual consumer.

Time does not permit consideration of all of the problems currently threatening the private brand gasoline marketer, but we would like to take this opportunity to present to you, in abbreviated form, our views on what should and must be done.

(1) To deal with the immediate supply problem refineries should be obligated to allocate to independent private brand marketers of gasoline that percentage of their production that was sold to the independent private brand segment during a most recent normal market period. In this connection Senator Saxbe has introduced S. 1599. SIGMA fully supports the objectives of S. 1599 and will have some suggestions at the appropriate time on its improvement. SIGMA strongly urges that this bill be assigned for early hearings and action by Congress.

(2) While there are some elements of encouragement in the President's recently announced new energy program and modification of the oil import control program, those benefits, if any, to the independent private brand segment will be available only in the longer term. None of the oil import control program modifications recently announced will provide meaningful early assistance to the private brand marketing segment unless there are further amendments.

In this connection it is essential that independent gasoline marketers be given the sole authority to import finished petroleum products and the import program should be modified accordingly. In order to insure that independent marketers who do not have access to imported products have access to supply, it is also necessary that the import program be modified to provide for mandatory exchange of import licenses granted to midcontinent independent refiners.

(3) While we fully support the administration's efforts to control inflationary trends within our escalating economy, we nevertheless feel that the Cost of Living Council must permit the major oil company refiners, now operating under special price constraints, to reflect cost increases incurred in the production of finished product. The economic stabilization program must not be permitted to become a disincentive for sales by major refineries to the independent marketing segment of the industry.

(4) We indorse fully and applaud the voluntary fuel conservation program outlined by Secretary of the Interior Morton in his testimony before the Senate Interior and Insular Affairs Committee on May 1. Unquestionably part of the solution of the gasoline supply problem lies in the easing of the total demand picture which can be achieved through considerate and intelligent use of available resources. SIGMA members will cooperate fully in the implementation of these suggestions.

While the above suggestions relate to the short-term aspects of the problem we face, there are some actions which we recommend and

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support which should be considered now and which will provide protection to the independent segment of the petroleum industry in future years.

(1) We strongly favor, for example, reasonable incentives for the construction of needed new refinery capacity, but we believe that the program should not be structured so as to apply exclusively to the major integrated oil companies.

Independent refiners to whom the independent marketing segment has historically looked for a portion of its product requirements, should also have the chance to expand capacity. To enable independent refiners to obtain long-term financing for refinery construction and operation the import allocation for new refineries should be increased from 75 to 100 percent and the term of such imports extended from 5 to 10 years. This is the only way participation by independent refiners will become a reality, and it is only in the expansion of the independent refining segment of the industry that we find reasonable assurance for the continued viability of the independent private brand gasoline marketer.

(2) We believe the Federal Government should take a more affirmative position to assist the early acquisition and environmental clearance of new refinery facility sites. The already long leadtimes inherent in refinery construction are becoming unbearable in the face of the present supply-demand picture and without Federal leadership a reduction of those delays does not appear likely.

(3) SIGMA strongly supports an early start of construction of a pipeline from the Alaskan North Slope supply sources. The necessary decisions as to route and other implementing actions should be taken with a minimum of delay.

(4) We support the recommendations in the President's recent energy message on the expansion of research and development activities in the area of fossil fuels and agree that public utilities should be encouraged to utilize coal as an energy source. Federal funding support for research necessary to achieve increased fossil fuel utilization is worthy of congressional support.

You will learn more in the course of these hearings than we presently know about the reasons for the present supply shortage, its legitimacy and whether it is being used as an anticompetitive device by major petroleum interests to eliminate the independent private brand retailer from the marketplace.

On the basis of what is happening to our members, the circumstances surrounding termination of historic supply relationships, the continual expansion of secondary brand activity by major oil companies—these and a host of other circumstances make us very suspicious that an unreasonable share of the economic burden of shortage is borne by our segment of the industry. As small businessmen, SIGMA members are relatively defenseless in the face of this threat and can only look to the authority of Government to provide protection from competitive extinction. We urge that this committee fully support early implementation of those measures suggested as potentially responsive to our immediate problems, as well as those addressed to the longer term to which we aspire to survive.

Again I express my appreciation for the opportunity to express the views of our members.

Senator McIntyre. We will call now on Mr. R. J. Peterson.

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STATEMENT OF R. J. PETERSON, INDEPENDENT GASOLINE MARKETERS COUNCIL

Mr. PETERSON. Mr. Chairman and members of the committee. I am chairman of the board of Martin Oil Service, Inc., in Chicago, Ill. I am also a founding member of the Independent Gasoline Marketers Council.

My brief statement here today is submitted on behalf of that council.

I would like to interject here that my statement is also made on the assumption that you gentlemen have been reading the newspapers, as all of us have, and that you are indeed aware that there is an acute shortage of gasoline, particularly as far as the independent marketer is concerned.

William E. Simon, the chairman of the Oil Policy Committee, has stated that this administration is reluctant to inject governmental regulations and controls into private industry or to take any steps that would discourage private initiatives.

Other spokesmen for this administration have similarly affirmed their faith in free enterprise. Indeed, Secretary Shultz has long been recognized as an advocate of the social benefits of competition and the social perils of Government interference.

With regard to the energy crisis, and national oil policy, the general view seems to prevail in this administration that, if the Government would just back off, the shortages and deficiencies will gradually disappear.

The new oil import control system is a case in point. The new system allows anyone to import anything so long as he is willing to pay a fee, and it allows certain participants, mainly refiners, to import limited amounts without any fee. This system has been put forward on the theory that it will increase flexibility in the short-term and assure long-term freedom of action in the private sector. The idea is not to impede the great American oil industry, but rather to rely upon its responsiveness to the needs of the Nation.

In a nutshell, the new policy says, let us push up the prices of crude oil and finished products so that increased output will be stimulated. Then, in 4 to 7 years, when adequate supplies have been restored competition will protect the consumer.

Against these observations, let me raise a doubt. How can you push prices up to stimulate a free enterprise reaction when the conditions of free enterprise are indeed lacking?

It is all well and good for the policymakers to proclaim their devotion to free enterprise. I include myself among such devotees. But, the underlying, structural, economic conditions of free enterprise do not exist in the oil industry and the reaction to freedom may be to monopolize markets rather than to increase output. Control rather than competition may be the consequence of the new policy.

The fundamental fact that must be understood is the fact of vertical integration. I specifically refer to those instances in which a single business house enjoys the tax advantages of percentage depletion and foreign tax credits and enjoys the economic power of raw materials control through the ownership of crude reserves and gathering and shipping pipelines.

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Vertical integration of that type distinguishes the oil industry from all other major industries, in degree if not in kind. Such vertical integration is the source of economic power in the oil industry. It is also the source of the private law that now suddenly governs the gasoline and fuel oil markets. It must be understood for what it is, if governmental authority is to be exercised in the public interest.

Because of vertical integration, whenever the Government seeks to avoid interfering with the oil industry, it is not thereby automatically preserving free enterprise and private initiative. Instead such avoidance is more likely to allow the dictates of private interest to prevail over the public good. Hence, private rulemaking rather than public law now governs the marketplace.

The forms of private rulemaking are obvious. Most of the fully integrated oil companies, with refining facilities and adequate supplies of crude oil, have adopted internal programs of allocation. With regard to both crude and finished oils, they refuse to deal with some, they curtail their dealings with others and they accommodate their own as fully as possible.

Such rulemaking and preferential dealings are, in effect, private laws. They have the collective impact of a statute on the marketplace. Consequently, at the present time, gasoline is flowing at near 1972 levels through integrated distribution channels. To the contrary, gasoline is flowing through nonintegrated, independent marketing channels at the rate of about one-quarter to one-half of the 1972 levels.

The independent gasoline marketer is bearing a disproportionate share of the shortage. Hence the independent gasoline marketer does not now exist as an effective competitor. Indeed, its continued existence may be measured in months, unless the trends in effect are redirected.

We must realize that there is no reason in free enterprise theory for a fully integrated refiner to voluntarily share his products with an independent marketer who is also his competitor at retail. Hence, the only power on earth that will redirect the flow of gasoline into independent marketing channels is the power of Government.

Past policies of the United States have so strongly favored and encouraged the complete downstream integration of major companies in the oil industry, starting from the fountainhead of crude oil ownership and pipeline ownership, that, at a time when there are shortages of supply and deficiencies of productivity, withholding governmental controls upon supply, distribution and price is, in reality, the abandonment of the public interest in favor of the private interest.

Instead of leaving the field in the name of free enterprise, the Government should rather enter the field in the name of free enterprise.

The Government should say plainly and clearly for all to hear: The independent, private-brand, price-discount marketers of gasoline and the independent refiners who must purchase for cash most of their feedstocks, constitute a national asset. Collectively, they are the true competitors in the marketplace. Without them, the consuming public would be at the mercy of monopolistic forces in the oil industry.

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Senator McIntyre. The consuming public, I am a part of the consuming public. I always thought that Texaco competed with Arco and that Arco competed with Exxon.

Why do we have to have these individual private brands—I have never gone near them. I always believed they were inferior gasoline.

Mr. Peterson. Did you believe that?

Senator McIntyre. I am asking you.

Mr. Peterson. If you believed it, you are subject to the only kind of competition that they practice, and that is the practice of national advertising, image advertising, credit card promotion, large expensive corner locations, and the belief that because they are the biggest that they must be the best.

That is not necessarily true.

Senator McIntyre. Don't they compete with one another?

Mr. Peterson. On that basis they do—on the basis of credit cards, on the basis of location. But without the independent factor, the major oil company levels of marketing will follow the suggested retail price generally speaking of the market leader in any given area.

Mr. Odom. Let me respond to that, because that is a very legitimate question. As a consumer, in my town of Montgomery, Ala., the marketing price there is very, very vigorous between the independent marketers, the private brand marketers and the major companies.

People driving pickup trucks and people driving Cadillacs drive up to convenient stores and serve themselves gasoline from the tanks at the convenience store at a savings to themselves.

By their own experience they know that the gasoline they are getting either from that convenience store or from some other private brand marketer down the street is of the same grade and the same quality as the gasoline they are buying from a major oil company. The only thing is they may not be getting all the service or at least they think they may not be getting all the service that they get from the major oil company.

But they go into that place to buy the gasoline. They know that the product that they are buying is just as good as that convenience store or at that private brand outlet as it is at the major oil company. So they shop where they can get the best price. It is competition for price and what the private brand dealer has done is to force the major companies—in my town, I have seen when the independents, the privates go down, when they post a cent lower or 2 cents lower, that is what the majors have to do.

They have to come down, too. They will maintain a gap, but that downward pressure for price has kept the major's price honest.

Senator McIntyre. What are those things I have heard about gasoline wars?

Mr. Peterson. I suppose that is price competition, Senator.

Senator McIntyre. We had better get back to Mr. Peterson.

The Chairman. Let me interrupt there and say I used to buy at an independent station. It was quite handy to me. One day I talked to the area manager of one of the major oil companies. I asked him about that gasoline, what his appraisal of it was. He said, "It is good

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gasoline." In fact, he said, "It is the same gasoline that we sell, just under another name, that is all."

I have often thought of that, coming from a representative of one of the major oil companies with reference to an independent oil station. I have always had a great deal of respect for independents.

Senator McIntyre. I interrupted you, Mr. Peterson. Will you now proceed.

Mr. Peterson. That is perfectly all right.

To me it seems the Government should admit the obvious. The structure of the oil industry generates monopolistic forces. By almost any standard, the market performance of the oil industry has been an abject failure. To prove the point, I urge you to ask the right questions:

Can it be said that the market performance of this great industry should be praised because it has achieved the present-day shortages?

It is not the fundamental task of a great industry to meet the effective demands of its marketplace?

If responsiveness to demand has really characterized the industry, would we be here today?

Is the competitive spirit dead, or should we admit that, in the oil industry, it has been under severe restraint for many years because of crude oil production controls, oil import controls, tax policies and anti-trust inaction?

Historically, economic behavior in the oil industry has been so greatly influenced by governmental decrees, especially in areas of production, imports, taxes and anti-trust, that the Government is fooling itself if it thinks that other forms of control in the public interest should be abandoned or withheld in order to restore or achieve the benefits of private enterprise. All that is really achieved is a freer hand for monopolistic forces.

The problem of today is the problem of output and competition. Certainly for the past 15 years, the determination of output, in quantitative terms, has been made by a series of administrative decisions. It has not been determined by free market interactions. There has been no free market in crude oil and no free market in petroleum products. Growth in demand has not spurred growth in domestic productive capacity, either of crude oil or of finished products.

Anytime during the past few years, it has not been difficult to predict the rising demands for gasoline, No. 2 fuel oil, and residual fuel oil. Yet, it has not been possible for new money, new talent, or new initiatives to be effectively responsive, particularly when the nexus of crude oil ownership and refinery ownership have made it virtually impossible for a newcomer to enter the industry at any one functional level without some form of preference or forbearance by major oil.

Because of these conditions, induced by past policies, new policies are necessary. But, the new policies must be positive and must, in fact, interfere with the natural motives and predictable behavior of the crude, strong multinational, fully integrated oil company. The rationale of avoiding interference with private initiatives is not relevant to the objectives of increased output and preserving com-

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petition. Those social objectives will not automatically follow from governmental abstinence.

Therefore, in the name of free enterprise, the Government must intervene—may I say to you very candidly, I never thought the day would come when I would say this but because of Government interference in the past, I think that now it is incumbent upon the Government to continue. I shall not read any more of my statement beyond that.

Senator McINTYRE. We will include the balance of your statements in the record.

[Complete statements of Mr. Lichtman and Mr. Peterson follow:]

STATEMENT OF FREDERICK LICHTMAN, PRESIDENT, SOCIETY OF INDEPENDENT GASOLINE MARKETERS OF AMERICA

Mr. Chairman and members of the committee, I am Frederick Lichtman, President of Tulsa Oil Corporation, Detroit, Michigan, appearing before you today in my capacity as President of the Society of Independent Gasoline Marketers of America (SIGMA) and representing the 210 member companies of that association. On behalf of the independent private brand gasoline marketers we appreciate this opportunity to present our views in this forum on the current petroleum product shortage and its grave economic and anticompetitive consequences to our members.

SIGMA is a national trade association representing 210 private brand gasoline marketing companies which operate 20,000 service stations distributed through most of the states of the Union. SIGMA member companies are, in the main, small businesses, but they employ thousands of people, pay substantial state and federal taxes on their sales and, prior to recent cutbacks in available supply, marketed in excess of 18,000,000,000 gallons of gasoline per annum.

In recent weeks you have read in the press and undoubtedly heard from your private brand gasoline marketer constituents that individual companies in several states are suddenly threatened with bankruptcy or substantial economic loss because they have been denied access to their historic share of available supply by the private brand segment of the industry. Available data indicates the situation is growing more serious with each passing day and statistics valid today are obsolete tomorrow. It is a tangible fact that independent gasoline retailers have been forced to close their stations or operate on substantially reduced schedules of service to the consuming public. If relief is not obtained soon, a substantial number of private brand gasoline marketers will be forced out of business, thereby reducing the only competitive force in gasoline marketing.

We are encouraged to hope that this committee, after development of the facts, as you propose to do in these hearings, will lend its support to immediate legislative and executive branch action to achieve, in the short term, the result necessary to preserve the independent private brand segment of the industry. A way must be found immediately to fairly spread the burden of the present shortage between the integrated major brand companies and the independent private brand segment of the industry. The present situation where the majors take all they have or all they need and cut off supplies to independents cannot be tolerated. It is not in the public interest or in the interest of the individual consumer.

Time does not permit consideration of all of the problems currently threatening the private brand gasoline marketer, but we would like to take this opportunity to present to you, in abbreviated form, our views on what should and must be done.

(1) To deal with the immediate supply problem refineries should be obligated to allocate to independent private brand marketers of gasoline that percentage of their production that was sold to the independent private brand segment during a most recent normal market period. In this connection Senator Saxbe has introduced S. 1599, which has been referred to Commerce Committee, but has not yet been assigned for hearings. SIGMA fully supports the objectives of S. 1599, will have some suggestions for the Commerce Com-

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mittee at the appropriate time on its improvement. SIGMA strongly urges that this bill be assigned for early hearings and action by the Congress.

(2) While there are some elements of encouragement in the President's recently announced new energy program and modification of the Oil Import Control Program, those benefits, if any, to the independent private brand segment will be available only in the longer term. None of the Oil Import Control Program modifications recently announced will provide meaningful early assistance to the private brand marketing segment unless there are further amendments to that program. In this connection it is essential that independent gasoline marketers be given the sole authority to import finished petroleum products and the import program should be modified accordingly. In order to insure that independent marketers who do not have access to imported products have access to supply, it is also necessary that the import program be modified to provide for mandatory exchange of import licenses granted to mid-continent independent refiners.

(3) While we fully support the Administration's efforts to control inflationary trends within our escalating economy, we nevertheless feel that the Cost of Living Council must permit the major oil company refiners, now operating under special price contraints, to reflect cost increases incurred in the production of finished product. The Economic Stabilization program must not be permitted to become a disincentive for sales by major refineries to the independent marketing segment of the industry.

(4) We endorse fully and applaud the voluntary fuel conservation program outlined by Secretary of the Interior Morton in his testimony before the Senate Interior and Insular Affairs Committee on May 1st. Unquestionably part of the solution of the gasoline supply problem lies in an easing of the total demand picture which can be achieved through considerate and intelligent use of available resources. SIGMA members will cooperate fully in the implementation of those suggestions.

While the above suggestions relate to the short-term aspects of the problem we face, there are some actions which we recommend and support which should be considered now and which will provide protection to the independent segment of the petroleum industry in future years.

(1) We strongly favor, for example, reasonable incentives for the construction of needed new refinery capacity, but we believe that the program should not be structured so as to apply exclusively to the major integrated oil companies. Independent refiners, to whom the independent marketing segment has historically looked for a portion of its product requirements, should also have the chance to expand capacity. To enable independent refiners to obtain long-term financing for refinery construction and operation the import allocation for new refineries should be increased from 75 to 100 percent and the term of such imports extended from five to ten years. This is the only way participation by independent refiners will become a reality, and it is only in the expansion of the independent refining segment of the industry that we find reasonable assurance for the continued viability of the independent private brand gasoline marketer.

(2) We believe the federal government should take a more affirmative position to assist the early acquisition and environmental clearance of new refinery facility sites. The already long lead times inherent in refinery construction are becoming unbearable in the face of the present supply-demand picture and without federal leadership a reduction of those delays does not appear likely.

(3) SIGMA strongly supports an early start of construction of a pipeline from the Alaskan North Slope supply sources. The necessary decisions as to route and other implementing actions should be taken with a minimum of delay.

(4) We support the recommendations in the President's recent energy message on the expansion of research and development activities in the area of fossil fuels and agree that public utilities should be encouraged to utilize coal as an energy source. Federal funding support for research necessary to achieve increased fossil fuel utilization is worthy of Congressional support.

You will learn more in the course of these hearings than we presently know about the reasons for the present supply shortage, its legitimacy and whether it is being used as an anticompetitive device by major petroleum interests to eliminate the independent private brand retailer from the market-

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place. On the basis of what is happening to our members, the circumstances surrounding termination of historic supply relationships, the continual expansion of secondary brand activity by major oil companies—these and a host of other circumstances make us very suspicious that an unreasonable share of the economic burden of shortage is borne by our segment of the industry. As small businessmen, SIGMA members are relatively defenseless in the face of this threat and can only look to the authority of government to provide protection from competitive extinction. We urge that this committee fully support early implementation of those measures suggested as potentially responsive to our immediate problems, as well as those addressed to the longer term to which we aspire to survive.

Again, may I express my appreciation for the opportunity to express the views of our members.

STATEMENT OF R. J. PETERSON, CHAIRMAN OF THE BOARD, MARTIN OIL SERVICE, INC.

Mr. Chairman and members of the committee, my name is R. J. Peterson. I am Chairman of the Board of Martin Oil Service, Inc., in Chicago, Illinois. I am also a founding member of the Independent Gasoline Marketers Council. My brief statement today is submitted on behalf of that Council.

William E. Simon, the Chairman of the Oil Policy Committee, has stated that this Administration is reluctant to inject governmental regulations and controls into private industry or to take any steps that would discourage private initiatives.

Other spokesmen for this Administration have similarly affirmed their faith in free enterprise. Indeed, Secretary Shultz has long been recognized as an advocate of the social benefits of competition and the social perils of government interference.

With regard to the energy crisis, and national oil policy, the general view seems to prevail in this Administration that, if the government would just back off, the shortages and deficiencies will gradually disappear.

The new oil import control system is a case in point. The new system allows anyone to import anything so long as he is willing to pay a fee, and it allows certain participants, mainly refiners, to import limited amounts without any fee. This system has been put forward on the theory that it will increase flexibility in the short-term and assure long-term freedom of action in the private sector. The idea is not to impede the great American oil industry, but rather to rely upon its responsiveness to the needs of the nation.

In a nutshell, the new policy says, let us push up the prices of crude oil and finished products so that increased output will be stimulated. Then, in four to seven years, when adequate supplies have been restored, competition will protect the consumer.

Against these observations, let me raise a doubt. How can you push prices up to stimulate a free enterprise reaction when the conditions of free enterprise are lacking?

It is all well and good for the policymakers to proclaim their devotion to free enterprise. I include myself among such devotees. But, the underlying, structural, economic conditions of free enterprise do not exist in the oil industry and the reaction to freedom may be to monopolize markets rather than to increase output. Control rather than competition may be the consequence of the new policy.

The fundamental fact that must be understood is the fact of vertical integration. I specifically refer to those instances in which a single business house enjoys the tax advantages of percentage depletion and foreign tax credits, and enjoys the economic power of raw materials control through the ownership of crude reserves and gathering and shipping pipelines.

Vertical integration of that type distinguishes the oil industry from all other major industries, in degree if not in kind. Such vertical integration is the source of economic power in the oil industry. It is also the source of the private law that now suddenly governs the gasoline and fuel oil markets. It must be understood for what it is, if governmental authority is to be exercised in the public interest.

Because of vertical integration, whenever the government seeks to avoid interfering with the oil industry, it is not thereby automatically preserving free enterprise and private initiative. Instead, such avoidance is more likely

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to allow the dictates of private interest to prevail over the public good. Hence, private rule-making rather than public law now governs the marketplace.

The forms of private rule-making are obvious. Most of the fully integrated oil companies, with refining facilities and adequate supplies of crude oil, have adopted internal programs of allocation. With regard to both crude and finished oils, they refuse to deal with some, they curtail their dealings with others, and they accommodate their own as fully as possible.

Such rule-making and preferential dealings are, in effect, private laws. They have the collective impact of a statute on the marketplace. Consequently, at the present time, gasoline is flowing at near 1972 levels through integrated distribution channels. To the contrary, gasoline is flowing through non-integrated, independent marketing channels at the rate of about ¼ to ½ of the 1972 levels.

The independent gasoline marketer is bearing a disproportionate share of the shortage. Hence, the independent gasoline marketer does not now exist as an effective competitor. Indeed, its continued existence may be measured in months, unless the trends in effect are redirected.

We must realize that there is no reason in free enterprise theory for a fully integrated refiner to voluntarily share his products with an independent marketer who is also his competitor at retail. Hence, the only power on earth that will redirect the flow of gasoline into independent marketing channels is the power of government.

Past policies of the United States have so strongly favored and encouraged the complete downstream integration of major companies in the oil industry, starting from the fountainhead of crude oil ownership and pipeline ownership, that, now, at a time when there are shortages of supply and deficiencies of productivity, withholding governmental controls upon supply, distribution and price is, in reality, the abandonment of the public interest in favor of the private interest.

Instead of leaving the field in the name of free enterprise, the government should enter the field in the name of free enterprise.

The government should say plainly and clearly for all to hear: The independent, private-brand, price-discount marketers of gasoline, and the independent refiners who must purchase for cash most of their feed-stocks, constitute a national asset. Collectively, they are the true competitors in the marketplace. Without them, the consuming public would be at the mercy of monopolistic forces in the oil industry.

The government should admit the obvious: The structure of the oil industry generates monopolistic forces. By almost any standard, the market performance of the oil industry has been an abject failure. To prove the point, I urge you to ask the right questions:

Can it be said that the market performance of this great industry should be praised because it has achieved the present day shortages?

Is it not the fundamental task of a great industry to meet the effective demands of its marketplace?

If responsiveness to demand has really characterized the industry, would we be here today?

Is the competitive spirit dead, or should we admit that, in the oil industry, it has been under severe restraint for many years because of crude oil production controls, oil import controls, tax policies, and antitrust inaction?

Historicaly, economic behavior in the oil industry has been so greatly influenced by governmental decrees, especially in areas of production, imports, taxes, and antitrust, that the government is fooling itself if it thinks that other forms of control in the public interest should be abandoned or withheld in order to restore or achieve the benefits of private enterprise. All that is really achieved is a freer hand for monopolistic forces.

The problem of today is the problem of output and competition. Certainly, for the past 15 years, the determination of output, in quanitative terms, has been made by a series of administrative decisions. It has not been determined by free market interactions. There has been no free market in crude oil and no free market in petroleum products. Growth in demand has not spurred growth in domestic productive capacity, either of crude oil or of finished products.

Anytime during the past few years, it has not been difficult to predict the rising demands for gasoline, No. 2 fuel oil, and residual fuel oil. Yet, it has not been possible for new money, new talent, or new initiatives to be effec-

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tively responsive. The restraining influences of vertical integration, particularly from the nexus betwen crude ownership and refinery ownership, have made it virtually impossible for a newcomer to enter the industry at any one functional level without some form of preference or forebearance by major oil.

Because of these conditions, induced by past policies, new policies are necessary. But, the new policies must be positive and must, in fact, interfere with the natural motives and predictable behavior of the crude-strong, multinational, fully integrated oil company. The rationale of avoiding interference with private initiatives is not relevant to the objectives of increased output and preserving competition. Those social objectives will not automatically follow from governmental abstinence.

Therefore, in the name of free enterprise, the government must intervene. (May I say to you, very candidly, I never thought the day would come when I would say this.)

Having pointed to the peril of extinction facing the independent marketer and the independent refiner, let me conclude by making sure we know who we are talking about. I am not a lawyer, however, I will try to define my terms.

The independent marketer in the oil industry is one who buys petroleum products from a refiner, a terminal operator, broker, or jobber, for resale at wholesale or retail. He does not own or control any refining capacity, nor is he owned or controlled by anyone with refining capacity.

The independent refiner is in an analogous position in relation to the crude oil producer. A refiner is generally regarded as independent if he does not own crude reserves and crude production sufficient to sustain the bulk of his refining and marketing.

Thus, in summary, the independent marketer is to be distinguished from the integrated marketer by virtue of refining capacity, and the independent refiner is to be distinguished from the integrated refiner by virtue of crude ownership, including foreign crude.

The opposite of an independent is an integrated company. An integrated gasoline marketer is one who is owned or controlled by, or under common control with, one who has gasoline manufacturing facilities and substantial crude production. A given marketer may become integrated or become independent if his ownership and control relationships change. For example, a marketer may become integrated by changes in stock ownership, financial indebtedness, a lease relationship, or an operating contract or other arrangement with a supplier which calls for a particular brand name and provides for price protection or some other form of economic support.

In contrast, an independent gasoline marketer is a person (1) who owns his own service stations or leases them from someone other than his supplier, and (2) who conducts his principal marketing activities under a private brand name not identified with nor used by his supplier, and (3) who does not have a contractual or other relationship with a supplier whereby the marketer is granted price protection, temporary allowances, or any other economic benefits.

As a final word, I submit the following: If we are to increase output and preserve competition, we must not allow the private rules of vertically integrated oil companies to govern the marketplace and determine the future structure of the oil industry. The voice of the independent must also be heard.

Senator McINTYRE. I yield now to the Senator from Alabama.

The CHAIRMAN. I want to ask just one question both of Mr. Lichtman and Mr. Peterson. What do you think of the suggestion made a few minutes ago about the use of royalty oil offshore?

Mr. LICHTMAN. This is one of the remedies that SIGMA has considered. It is not going to solve the problem. It will help to alleviate it in some areas. We agree that it is a good idea. That the royalty oil should be allocated by the government to independent refiners so that the final finished product can find its way to the independent marketer.

But you are not talking about much oil, Senator, when you talk about the royalty oil; 40 million gallons of finished product is not going to solve the problem of this industry.

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The CHAIRMAN. It will not solve it but it is better than nothing, isn't it?

Mr. LICHTMAN. That is right. It is better than nothing. I am not knocking it.

The CHAIRMAN. What is you thought, Mr. Peterson, do you agree with what Mr. Lichtman has just said?

Mr. PETERSON. Let me respond as I feel about it rather than agree with what he has said.

The CHAIRMAN. Briefly, because Senator McIntyre is pushed for time.

Mr. PETERSON. I understand he is. My response to that is I think it will not in the long term be an effective way to do it. I have tried it as an individual. It has many problems. I believe there is a simple way to do it, and that is to recognize that historically the independent had a percentage of the market and that the Government intervened and required that not just historic sales be recognized——

The CHAIRMAN. In other words, you would recommend allocations?

Mr. PETERSON. Allocations at the refinery level on a percentage basis?

The CHAIRMAN. Yes, sir. Thank you.

Senator McINTYRE. Senator Johnston.

Senator JOHNSTON. I believe Mr. Lichtman said we ought to get along with the Alaskan pipeline. Which route?

Mr. LICHTMAN. Had you been reading the statement along with me, Senator, you would see that we skirted that issue. We are marketers; we are not environmentalists, we are not engineers or planners. We are interested in getting the product down here.

Senator JOHNSTON. You are staying out of the whole environmental question, and you do not have any recommendations to relax the environmental rules?

Mr. PETERSON. To the extent that the environmental question impedes the progress of the establishment of the route, I think that somewhere along the line there has got to be some compromise made. I think, basically, we are all environmentalists, we all like the trees and the flora and the fauna.

Senator JOHNSTON. Are you in favor of the emission control standards?

Mr. PETERSON. The emission control standards when the automotive industry and when the petroleum industry can meet them within a reasonable time, yes. The thing that bothers us now, while the auto industry has been given a year's delay, the petroleum industry is still required to sell unleaded products starting next July 1974 and that opens up a whole new can of worms.

The independent does not have now, and has no assurance that he will ever have, access to the unleaded product which is required under the EPA regulation.

Senator JOHNSTON. The point is you do not have any real position on the relaxation of the environmental rules? Whether they be in coal burning, emission controls, power plant sighting or the Alaskan pipeline, you do not have any position except that you do not want it to impede the progress?

Mr. PETERSON. No, I do not think it is fair to say we do not have a position. By the same token, being marketers and not being in-

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volved in the vast expenditures of money that must be made, it may be somewhat presumptuous on our part as marketers to either tell those who are making the big investments or those who are concerned with the environmental aspects or those who govern where we think that line ought to be, how fast it ought to be built and in what manner it should be built. There is a limit to the influence that we think we might or should have.

So, on that ground, I must beg the question.

Senator JOHNSTON. Thank you.

Senator McINTYRE. Thank you.

Mr. LICHTMAN. You say 20,000 service stations. Could you give the committee any idea of how many of those stations to your knowledge—ballpark figures I am talking about—are closed today? Could you give us some understanding of the significance of this crisis you are up against?

Mr. LICHTMAN. I do not have the actual figure in numbers but we can submit it because our office is daily tallying these things.

Senator McINTYRE. Can you give me a ballpark figure?

Mr. LICHTMAN. I would say at present that 25 to 30 percent might be a fair figure.

Senator McINTYRE. There are a number of questions that I am going to submit to both Mr. Peterson and to you, Mr. Lichtman, and to Mr. Mason and Mr. Odom. But we will do it for the record in view of the time.

The important thing is to give you a chance to state your case and how you feel about it. We would like to pursue a lot of questions but the day is moving along fast, and we will submit them.

Mr. ODOM. Senator McIntyre, can I throw out one thought for the record which you might use when the Government witnesses are here?

One of the alternative suggestions that has been made involves trying to make it possible to import crude oil so that it will have an effect and an impact upon the excess capacity of the refineries that we have in this country today, that is, refinery that can only use domestic crude. It has been suggested to the Government that some kind of incentive or some kind of program be devised which would encourage the major oil companies to exchange their domestic crude with the independent refiners for the independent refiners' license to import foreign crude, that is to say to the majors in actual exchange so that these independents can refine domestic crude, there will be some common incentive.

I would hope that the committee would ask Mr. Simon or some of those in authority what their attitude toward such a program would be.

Senator McINTYRE. Mr. Odom, we are going to have Mr. Simon over here, and the day he is here, we will have plenty of chance, we will have an hour or so, I believe, to inquire. If you want to get together with the staff of this committee, so we understand thoroughly what you are driving at, we would be happy to put that to him.

Mr. ODOM. Thank you very much, Senator.

Senator McINTYRE. Thank you very much for your testimony.

We now call as our next witnesses, a panel of five individuals, Herbert A. Sostek, representing the Independent Fuel Terminal

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Operators Association, William R. Deutsch, National Oil Jobbers Council, also Gregg Potvin, National Oil Jobbers Council, Doug Baker, National Self Service Gasoline Association, and J. R. Parrish, National Self Service Gasoline Association.

Gentlemen, if you will take your seats at the witness table. I am happy to welcome you here today. I am going to ask you to summarize your statements in 5 to 7½ minutes. We will, of course, accept all your statements in their entirety. If you can do that, it will give us a chance to ask a few questions before we recess until tomorrow. We will start off with Mr. Sostek.

STATEMENTS OF HERBERT A. SOSTEK, INDEPENDENT FUEL TERMINAL OPERATORS ASSOCIATION, ACCOMPANIED BY NICHOLAS CIRILLO, VICE PRESIDENT OF CIRILLO BROS. TERMINAL CORP., NEW YORK; GREGG POTVIN, ACCOMPANIED BY WILLIAM R. DEUTCH, NATIONAL OIL JOBBERS COUNCIL; W. D. BAKER, NATIONAL SELF SERVICE GASOLINE ASSOCIATION, AND HIGHLAND PETROLEUM, INC., AND J. R. PARRISH, NATIONAL SELF SERVICE GASOLINE ASSOCIATION AND U GAS UM, INC.

Mr. SOSTEK. Thank you, Mr. Chairman and members of the committee.

My name is Herbert A. Sostek. I am the executive vice president of the Gibbs Oil Co. of Revere, Mass., an independent deepwater terminal serving the New England area.

With me is Mr. Nicholas Cirillo, vice president of Cirillo Bros. Terminal Corp., an independent deepwater terminal serving the New York and Long Island areas.

Before beginning my formal statement, Mr. Chairman, I should like to commend you, the members of this committee, and the Senators, Congressmen, and Governors from New England and the Northeast for your persistent fight on behalf of independent marketers and consumers of No. 2 fuel oil and gasoline. It continues to be a difficult, hard effort, but we have made some progress. Substantial changes in oil import policies have been made in recent years and recognition is being given to the competitive and supply problems of independent marketers and deepwater terminal operators along the east coast.

We are deeply grateful for your leadership, for the series of fact-finding hearings and inquiries into the problems conducted by this committee, and for the continuing support of the public officials of the Northeastern States.

I am appearing today on behalf of the Independent Fuel Terminal Operators Association whose 15 members operate oil terminals along the east coast from Maine to Florida.

A list of members is included with my statement's attachment A.

Our members own or control terminals capable of receiving ocean-going tankers; none is affiliated with a major oil company. All are qualified to participate in the No. 2 fuel oil import program established under section 2(a)(1) of Presidential Proclamation 3279, as

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amended, and section 30 of the Oil Import Regulation, under which 50,000 b/d of home heating oil is presently being imported into District I—the east coast. The members of our association are independent marketers of No. 2 fuel oil, No. 6 fuel oil, and gasoline and other petroleum products.

Our testimony before you in 1971 contained a detailed analysis of deepwater terminal operations and the history of our part of the oil business, and the record compiled by this committee at that time, "Cost and Adequacy of Fuel Oil," is a most complete and persuasive document.

We should like, therefore, to limit our testimony this morning to three specific topics:

1. The gasoline supply situation and its impact on independent marketers.
2. The No. 2 fuel oil, home heating oil, supply situation and its impact on independent marketers.
3. The new oil import program.

1. GASOLINE

The urgency and impact of the gasoline shortage have been well known to those of us in the independent gasoline business for a number of months. We are, therefore, pleased that these hearings are being held for they can play an important role in bringing all the facts to the attention of the public and the executive branch of the Federal Government.

Mr. Chairman, you and other Members of Congress, have been warning for nearly 6 months about the threat of a gasoline shortage. Unfortunately, once again these warnings have not been heeded; once again the Federal Government has chosen to listen to the assurances of others that the supply problems would be localized and temporary.

We can state our position briefly; I am sure it will be supported by other witnesses. The gasoline shortage will be worse than anticipated; it will be widespread and long lasting. And unless prompt action is taken by the Congress and the executive branch, a major result of that shortage will be the destruction of a large portion of the independent gasoline business.

As independents, our chief fear is that, unless Federal policies are changed, thousands of independent gasoline stations will be permanently closed, tens of thousands of persons will lose their jobs and hundreds of millions of dollars of investments will be wiped out. The short-term impact on our country will be equally serious, for it will mean greater concentration of economic power in the hands of fewer and fewer companies and potential destruction of the competitive operators who have brought good service and lower prices to consumers.

In the interest of time, Mr. Chairman, I will skip over some of the background information which I set forth here and go into some portion of it that I think is meaningful.

As an example of why we have some of these problems, we have developed a statistic which is very, very interesting. In New England, sir, in the years 1971 and 1972, the average growth in consumption

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during the first 3 months was approximately 4.5 percent on gasoline. For the first 3 months of this year it is running at 8.8 percent, nearly a 100-percent increase in a time of shortage.

Some of the other things we were going to say have been stated by other people. I shall therefore get to our recommendations, which we think would be helpful.

I would first like to go into my statement, which needs some correcting. Prices change rather dramatically in our industry and there have been changes since this was prepared. Where we have reference to foreign gasoline versus domestic gasoline, the domestic landed price, Boston, assuming its availability—and I can assure you it is not available—would be 18¼ cents, making the delivered cost to a station 30¾ cents; the average independent posted price in our area of 35.9 cents, giving a margin of approximately 5.15 which is less than an acceptable margin for return on investment. The foreign price would stay the same except that the posted price would go up to 35.9 and that would show a loss of one tenth of 1 cent. However, I am advised as of last night—I have not been back to my office—that the latest quotation for foreign gasoline delivered to the United States is beginning to approach 25 cents a gallon which would have a substantial impact on this.

Our recommendations are as follows:

First, a strong allocation and rationing statute should be enacted which would require—and I emphasize "require"—the Federal Government in times of short supply of any product, to allocate deliveries and sales. Such allocations should be designed to equalize the impact of supply gaps and shortages throughout the U.S. gasoline distribution system. No one segment, level or group of companies should be allowed to profit at the expense of others.

As an aside, I believe that that could very well help Mr. Mason, the gentleman from Alabama, who just got through testifying.

Second, a forum should be created and standards established by statute so that individual companies could bring formal complaints and secure remedial action against all refiner-suppliers for unfair trade and marketing practices. We support proposals to provide remedies and a forum before the Federal Trade Commission and to establish standards based on historical supply and price relationships.

What we are seeking is similar to what was done in the case of price controls—the establishment of a base period and restoration of supply and price relationships for gasoline, heating oil, and other products until the crisis is passed. There are those who feel the Government should not intervene; our response is that Government policies—in particular the oil import program proclaimed in 1959—have so distorted the petroleum market that the independent is at a severe disadvantage.

There are some suggestions I have developed that do not appear in the statement which I think may be helpful, and I would like to insert them now because recommendations to help solve the crisis are what everyone is looking for.

One of the things that could conceivably help would be to remove the freeze on the 23 major oil companies, to allow their gasoline pump prices to increase.

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I recognize that this is inflationary. But, in order for the independent to exist, he is going to have to move his pump prices up or he will be wiped out. I do not believe the major oil companies should capture all of this increased price. It is my suggestion that some program could be developed between the major oil companies and perhaps the Federal Government for joint ventures to support these R. & D. programs that have been talked about—coal, gas and shale and things of that nature. It could be audited by the Government, the GAO, similar to the way Defense contracts are handled on R. & D.

But I think the very survival of independents is involved. They must be able to post a higher price at the pump because they are paying so much more for gasoline.

I think Government could give assistance to get crude to the independent refiners with the agreement that the independents get first option.

More support for construction of domestic refineries particularly in those areas where they do not exist.

Accelerated Government and industry effort for R. & D. programs.

Some relaxation of environmental laws to prevent waste. For example, cars with emission control systems are currently using approximately 25 percent more gasoline than cars without them.

No. 2 fuel is being diverted from the home heating market and blended with No. 6 oil to get the sulfur emissions down.

More and expanded offshore exploration for crude oil and natural gas with, of course, environmental protection.

A concentrated education program.

All of these things we believe will go a long way towards helping alleviate the crisis.

We would like to make one final comment on a matter of great importance to us. The new more flexible authority given to the Oil Import Appeals Board is great and it can help. The import licenses for gasoline, which you saw a copy of earlier today, will have some value to the independents who receive them, but based on the price you have to pay for the product, you can see that is going to be very difficult to make most effective use of the awards.

The process, however, is subject to abuse and must be carefully administered and regulated. We fear that major oil companies and others who are not qualified may subvert the system by going to the recipients of allocations and offering to buy rather than exchange those OIAB licenses.

They might give them some nominal value and then turn around and use it to bring the product in. This, in fact, is what is helping to create this inflated market for imported gasoline.

Mr. Chairman, our specific recommendations are naturally designed to help our segment of the industry, but I think this committee should recognize that we are fighting for survival and our survival is of great importance to the public.

I think, in the interest of time, I will now turn this over to Mr. Cirillo, who will talk about the No. 2 Fuel oil portion of it.

Mr. CIRILLO. As you will recall, Mr. Chairman, you and others began warning about the danger of the No. 2 fuel oil crisis more than a year ago.

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The administration refused to act at that time, accepting the assurance of the major oil companies. Unfortunately, those assurances were wrong.

Despite the emergency decontrol program ordered in January, it was the unseasonably warm weather, not the decontrol, that saved the millions of homeowners from going cold.

We cannot count on similar luck this year. Even more important, decisions must not, as was done last year, be delayed. We view July 1 as the final date on which efficient planning can take place.

In considering the action which must be taken, the committee must be aware that independent marketers of No. 2 fuel oil are in the same situation as independent marketers of gasoline.

The supply crisis for fuel oil marketers is, of course, not so apparent to the public as in the case of gasoline, but it is perhaps more severe.

For example, east coast independent deepwater terminal operators are currently facing a massive supply gap. We are simply unable to buy any significant quantities of No. 2 fuel oil from domestic sources. We are being cut back continuously by all our domestic refining suppliers.

Our total demand for the coming year will be nearly 280,000 barrels a day. Of this amount only 85,000 barrels has been provided under firm commitments from domestic refiners. In other words, we are facing a supply gap of more than 190,000 barrels a day.

An analysis of this gap can be found in attachment B of this statement.

When you consider that our independent deepwater terminals provide 25 percent of the delivery capacity and distribution system along the east coast, you can realize the impact that this shortage will have on the homeowners.

Domestic suppliers are already tight. The API statistics show that distillate stocks are higher than a year ago but we do not believe that stocks can be built up to safe levels this summer because of the extraordinary demands for the production of gasoline.

The summer of 1973 will be a repeat of the summer of 1972. Gasoline will be produced at the expense of heating oil.

In brief, we face the repeat of a dreary cycle of shortage begets shortage.

Some supplies of No. 2 fuel are available from foreign sources and some additional access to those supplies has been provided under the new oil import program.

But foreign distillate——

Senator McINTYRE. Do we still have a Western Hemisphere restriction on it?

Mr. CIRILLO. No; thanks to your efforts that was lifted, but foreign distillate is already selling at prices that are well above domestic and continuing to escalate, as more and more buyers—American buyers, that is—enter into the foreign market.

Included among these buyers are most of the major oil companies and large utilities. The majors and the utilities obviously view the new import licenses fee of 15 cents per barrel as no barrier, for they are out into the market scouring it for any and all heating oil that they can find and are offering astronomical prices for that product.

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As an example, the largest utility in Florida told a House Committee 2 weeks ago that it was sending representatives to the Arab countries to buy fuel oil directly; they are seeking 33 million barrels per year. It should be noted that this purchase, by one utility alone, is equivalent to one-third of the total New England annual consumption of No. 2 fuel oil.

In brief, unless the government and the Congress act and act soon, what lies ahead for the Northeastern States is a short fall in domestic No. 2 fuel oil supplies, increasing reliance on high priced foreign oil, physical shortages in many areas, and as in the case of gasoline, the eventual destruction of the independent fuel oil segment.

One of the members of our own association has already been removed from the ranks of the independents. Less than a week after the announcement of the new oil import program, the Union Oil Co. of Boston was bought out by a refiner, the Coastal States Gas Producing Co. of Corpus Christi, Tex.

As this committee is well aware, heating oil is a vital fuel. If there is a physical shortage of gasoline, it will mean some inconvenience to some drivers and loss of money to some businesses. However, a physical shortage of heating oil poses a direct threat to the health and safety of millions of families, particularly in the Northeastern States.

Senator JOHNSTON. Is No. 2 fuel oil the same as diesel oil?

Mr. CIRILLO. Yes, it is.

Given this background of potential shortage and destruction of the independents——

Senator MCINTYRE. Remember my admonition now, where you can say it in your own words, fine and dandy.

I hate to put you under such constraints but the staff thought the day was 24 hours long.

Mr. CIRILLO. I will just give you our recommendations for action.

First, the Federal Government must recognize and act by July 1. This should be a target date.

Second, the oil policy committee should act to increase, on July 1, the import allocations of No. 2 fuel oil from 50,000 barrels a day to a minimum of 150,000 barrels a day.

Third, the Oil Import Appeals Board must act quickly on pending No. 2 oil applications.

Fourth, the Oil Policy Committee should take immediate steps to discourage the use and importation of No. 2 fuel oil from abroad by utilities.

Fifth, the Federal Government should continue its efforts to encourage the States to relax sulfur content standards and make them more uniform.

Sixth, we recommend enactment by the Congress of allocation or rationing legislation and enactment of legislation to provide relief before the Federal Trade Commission.

We should remember that those who criticized the oil import program for so long, including the Chairman of this committee and many of his colleagues did so because it was not doing what it was intended to do.

The only thing it succeeded in doing—14 years ago—was that we have fewer independents now than we have ever had; our ranks have

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been decimated and all as a result of the mandatory oil import program.

We should like to state first that the new oil policy procedure and administrative structure appears to be a more efficient and more responsive one, and that the gentlemen who are in charge at this time certainly are doing a lot of listening, which is to us, extremely important.

We do not believe that massive changes in the new program are needed or are desirable. We agree that stability is required. A business that is as closely regulated as oil must be able to plan and act with some assurance that government regulations and policies will remain reasonably stable.

But, as we have indicated, when a crisis occurs—and the threat to independent marketers is a crisis—certain changes must be made to prevent serious consequences.

There are five problem areas in this new program that we see. We are particularly concerned about what happens if, by the time the fees have escalated to their high point in 1975, enough additional domestic refining capacity has not been built. What do we do then?

Another concern is whether the fees are any deterrent at all to the importation by the major oil companies and utilities of finished products.

We do not think so. Our discussion in the preceding statement leads to what we believe is the most grievous flaw in the new system, particularly from the point of view of independent petroleum marketers: The fact that major oil companies and utilities are permitted to import finished products.

We have stated to the Oil Policy Committee on numerous occasions and are stating here today that, given current limited availability of foreign supply, to allow the majors and utilities to import at all, even on a fee-paid basis, throws them in direct competition with the smaller independent.

We urge that this aspect of the program be reviewed and reversed.

We agree that certain incentives should be made for construction of new storage capacity. We have covered the Oil Import Appeals Board before, so I will go to section 30 in which we are tremendously interested.

We are pleased that the Western Hemisphere purchase limitation has been suspended by the chairman of the Oil Policy Committee. This action will help us immeasurably. Unfortunately, as we have indicated, the allocation of 50,000 barrels a day is woefully inadequate. Our supply gap is tremendous. It is well over 190,000 barrels at this point. Some allocations may be available from the Oil Import Appeals Board but what is really needed and what will be most effective is a decision to increase the regular program to at least the level of 150,000 barrels a day.

We were informed when the new No. 2 fuel oil program was being put together that it was going to be based on 1972 and 1973 import rates; and this was so done and accomplished on crude oil and residual fuel. Yet when it came to section 30, for some unknown reason, it was cut back to the pre-crisis levels.

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In conclusion, Mr. Chairman, I should like to take this opportunity of thanking you now and the members of the committee for your continuing efforts on our behalf.

[The full statement of Mr. Sostek follows:]

STATEMENT OF HERBERT A. SOSTEK ON BEHALF OF THE INDEPENDENT FUEL TERMINAL OPERATORS ASSOCIATION

Mr. Chairman, Thank you very much for the privilege of appearing before you today. My name is Herbert A. Sostek; I am Executive Vice President of the Gibbs Oil Co. of Revere, Massachusetts, an independent deepwater terminal serving the New England area. I am also a member of the Independent Fuel Terminal Operators Association. With me is Mr. Nicholas Cirillo, Vice President of Cirillo Bros. Terminal Corp., an independent deepwater terminal serving the New York and Long Island areas.

Before beginning my formal statement, Mr. Chairman, I should like to commend you, the members of this Committee, and the Senators, Congressmen and Governors from New England and the Northeast for your persistent fight on behalf of independent marketers and consumers of No. 2 fuel oil and gasoline. It continues to be a difficult, hard effort, but we have made some progress. Substantial changes in oil import policies have been made in recent years and recognition is being given to the competitive and supply problems of independent marketers and deepwater terminal operators along the East Coast. We are deeply grateful for your leadership, for the series of fact-finding hearings and inquiries into the problem conducted by this Committee, and for the continuing support of the public officials of the Northeastern states.

I am appearing today on behalf of the Independent Fuel Terminal Operators Association, whose 15 members operate oil terminals along the East Coast from Maine to Florida. A list of members is included with my statement (Attachment A). Our members own or control terminals capable of receiving ocean-going tankers; none is affiliated with a major oil company. All are qualified to participate in the No. 2 fuel oil program established under Section 2(a)(1) of Presidential Proclamation 3279, as amended, and Section 30 of the Oil Import Regulation, under which 50,000 b/d of home heating oil is presently being imported into District I (the East Coast). The members of our association are independent marketers of No. 2 fuel oil, No. 6 fuel oil, gasoline and other petroleum products.

Our testimony before you in 1971 contained a detailed analysis of deepwater terminal operations and the history of our part of the oil business, and the record compiled by this Committee at that time. "Cost and Adequacy of Fuel Oil," is a most complete and persuasive document.

We should like, therefore, to limit our testimony this morning to three specific topics:

1) The gasoline supply situation and its impact on independent marketers.

2) The No. 2 fuel oil (home heating oil) supply situation and its impact on independent marketers.

3) The new Oil Import Program.

1. GASOLINE

The urgency and impact of the gasoline shortage have been well known to those of us in the independent gasoline business for a number of months. We are, therefore, pleased that these hearings are being held, for they can play an important role in bringing all the facts to the attention of the public and the Executive Branch of the Federal Government.

Mr. Chairman, you and other members of Congress, have been warning for nearly six months about the threat of a gasoline shortage. Unfortunately once again these warnings have not been heeded: once again the Federal Government has chosen to listen to the assurance of others that the supply problems would be localized and temporary.

We can state our position briefly; I am sure it will be supported by other witnesses. The gasoline shortage will be worse than anticipated: it will be

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l and long-lasting; and unless prompt action is taken by Congress and the Executive Branch, a major result of that shortage will be the destruction of a large portion of the independent gasoline business.

As independents, our chief fear is that, unless Federal policies are changed, thousands of independent gasoline stations will be permanently closed, tens of thousands of persons will lose their jobs and hundred of millions of dollars of investments will be wiped out. The short term impact on us will be disastrous and the long term impact on our country will be equally serious, for it will mean greater concentration of economic power in the hands of fewer and fewer companies and potential destruction of the competitive operators who have brought good service and lower prices to consumers.

We are not sure why the gasoline crisis has hit so suddenly, nor who is responsible, but there are certain contributing factors which can be readily identified:

- Refiners and the Federal Government have been slow to acknowledge the crisis.
- Gasoline demand is increasing sharply; in New England is it 8.8% above last year; in 1971 and 1972 the growth rate was an average of 4.5%.
- Domestic refining capacity has not ben expanding; U.S. refineries have not been operating at full capacity.
- Accelerated distillate production over the past winter delayed the build-up of gasoline stocks to adequate levels.
- Federal price controls have discouraged production of some petroleum products.
- Federal and state anti-polution controls have accelerated the consumption of petroleum products such as No. 2 fuel and gasoline. Coal has been phased out of many regions as an industrial and utility fuel because it cannot meet air quality emission levels leaving low sulphur No. 6 fuel and No. 2 fuel as the only alternative fuels. Moreover exhaust control systems have led to more gasoline consumption per miles driven in newer model cars.
- The shortage of natural gas—and the interrupting of its supply to industrial and utility customers—has further exacerbated the No. 2 and No. 6 fuel supply situation because these two fuels are the only alternative fuels to take up the slack.
- Finally, both environmental and economic restraints have led to a far slower growth in nuclear electric generating capacity than expected. This has forced oil—specifically No. 2 and No. 6 fuel—to carry a larger share of energy requirements than expected.
- In short, oil has become the "swing" fuel and now is carrying by far the highest share of total energy growth each year nationwide. Failure to recognize these trends earlier has put an enormous strain on the oil industry's ability to meet its new role.

There seems to be general agreement on these points; but, until recently, little awareness of the grave impact of all these factors on independent marketers of gasoline. These marketers are being cut-off by refiners—on a massive, and I repeat, massive scale. In nearly every region of the country stations are closed, customers being rationed and successful and astute small businessmen facing ruin. The refiners are not only cutting back on direct sales to independents, but are depriving independents of alternative sources of supply by buying up most available domestic and foreign gasoline output and taking over the output of U.S. independent refineries through formal and informal crude oil processing arrangements. This latter development—processing arrangements—is well known to the Chairman of the Committee, who has been pressing the Department of Justice for an investigation and action.

The foreign market offers little hope. Some gasoline is available, but not nearly enough to meet the supply gaps facing independents; and what is available is very expensive, due to the high demand from many American buyers, including, as I have indicated, the major oil companies.

The following chart will illustrate the impact of the foreign gasoline price structure on an American independent marketer:

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GASOLINE—94 OCTANE REGULAR

[In cents per gallon

	Domestic	Foreign
Landed price, Boston	16.0	23.5
Massachusetts and Federal taxes	11.5	11.5
Terminal charges	.25	.25
Average transportation to station	.75	.75
Delivered cost to independent station	28.5	36.0
Average independent posted price	34.9	34.9
Margin	[1] 6.4	−1.1

[1] This provides only a marginally acceptable return on investment.

Supplies are tight everywhere, and unless something is done quickly, in a matter of a few months, the structure of the U.S. gasoline market could well be altered—permanently and radically. Some say that nothing can be done and the "free market forces" should be allowed to operate. But the market is not free. And current Federal Government policies including the new Oil Import Program tend to favor the larger companies.

Thus, what is most needed is prompt intervention by the Government to prevent elimination of the independents; in addition there must be some change in oil import policies.

The Government intervention should have a simple, basic goal: to assure that the shortage is shared equitably. Action by Congress should, we believe, be taken on two fronts:

First, a strong allocation and rationing statute should be enacted which would require—and I emphasize require—the Federal Government, in times of short supply of any product, to allocate deliveries and sales. Such allocations should be designed to equalize the impact of supply gaps and shortages throughout the U.S. gasoline distribution system. No one segment, level or group of companies should be allowed to profit at the expense of others.

Second, a forum should be created and standards established by statute so that individual companies could bring formal complaints and secure remedial action against all refiner-suppliers for unfair trade and marketing practices. We support proposals to provide remedies and a forum before the Federal Trade Commission and to establish standards based on historical supply and price relationships.

We realize that it will be difficult for the Federal Government to establish and administer an allocation system, but it certainly would be less complicated than the Phase I or Phase II wage-price control mechanism. The crisis of survival for the independents is no less severe than the crisis of inflation for the consumer. In short, an allocation system to deal with the petroleum-supply crisis can work if the Federal Government really wants it to work.

What we are seeking is similar to what was done in the case of price controls—the establishment of a base period and restoration of supply and price relationships for gasoline, heating oil, and other products until the crisis is passed. There are those who feel the Government should not intervene; our response is that Government policies—in particular the Oil Import Program proclaimed in 1959—have so distorted the petroleum market that the independent is at a severe disadvantage. Because Federal policies have contributed to the crisis, the Government bears a heavy responsibility to help. The basic truth, as I have indicated above, is that we are not operating in a free market system when it comes to oil. There is no such thing as a free market, and the Federal Government should recognize this.

We should like to make a further comment with reference to oil import policies on gasoline. The new, more flexible, authority given to the Oil Import Appeals Board can help. The import licenses for gasoline will have some value to independents who receive them. But the process is subject to abuse

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and must be carefully administered and regulated. We fear that the major oil companies and others who are not qualified may subvert the system by going to recipients of allocation and offering to buy, rather than exchange, OIAB licenses; they would buy them, for perhaps 25 cents—half their value, accumulate a large volume of tickets from a large number of independents and use those tickets to import gasoline into their own supply system.

In brief, the OIAB can be a useful instrument if it is effectively and efficiently run and there is continual checking on the end use of allocations granted.

We should like to offer further comments on the new Oil Import Program later in our statement.

Mr. Chairman, our specific recommendations are naturally designed to help our segment of the industry. But I think this Committee should recognize we are fighting for survival and that our survival is of great importance to the public. For if we fail, if the independent is squeezed out of the market, it is the consumer who will be hurt. The consumer—your constituents—have a direct stake in this fight.

We are in business to make a profit. But we have done that by offering the consumer a lower cost alternative product of equal quality. That's why we have grown in market share. Private brand retailers now account for over 22% of total retail gasoline sales. If you figure that our average sales price has been some 3¢ per gallon under the major brand station that adds up to some $700 million annually in consumer savings. In short, we have had a competitive impact far greater than our size and financial strength might indicate.

2. NO. 2 FUEL OIL

Under the leadership of the Chairman, this Committee has over the past few years made a complete, thorough record on the subject of No. 2 fuel oil supply and the impact of shortages on independent marketers and consumers. Your interest and your hearings first began in 1968. Since that date you have warned of fuel oil shortages and asked for changes in oil import policies. Unfortunately these warnings have not been heeded until it was too late.

Because of your deep knowledge and extensive consideration of the home heating oil problem, we will not comment on it at great length today. However, we would like to provide our assessment of current supply problems, projections about next winter, and some recommendations for action.

Our projections about next winter can be simply stated: Demand will be higher, domestic supplies will be tighter and the chances of physical shortages greater than last year. The prospects are grim, indeed; and the gravity of the situation must be faced now and actions taken within the next several months.

As you will recall, Mr. Chairman, you and others began warning about the danger of a No. 2 fuel oil crisis more than a year ago. The Administration refused to act, accepting the assurances of the major oil companies; unfortunately, those assurances were wrong. Despite the emergency decontrol program ordered in January, it was the unseasonably warm weather—not decontrol—that saved millions of homeowners from going cold.

We cannot count on similar luck next year. Even more important, decisions must not, as was done last year, be delayed. We view July 1 as the final date on which efficient planning can take place.

In considering the actions which must be taken, the Committee must be aware that independent marketers of No. 2 fuel oil are in the same situation as independent marketers of gasoline. The supply crisis for fuel oil marketers is, of course, not so apparent to the public as in the case of gasoline, but it is perhaps more severe. For example, East Coast independent deepwater terminal operators are currently facing a massive supply gap. We are simply unable to buy any significant supplies of No. 2 fuel oil from domestic sources; we are being cut back or cut out by almost every one of our domestic refiner-suppliers. Our total demand for the coming year will be 250-260,000 b/d. Of this amount, only 65,000 bbls has been provided under firm commitments from domestic refiners. In other words, we are now facing a supply gap of more than 190,000 b/d. An analysis of this gap, prepared last month at the request of the Office of Oil and Gas, is included as Attachment B of this statement.

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When you consider that our independent deepwater terminals provide 25% of the delivery capacity and distribution system along the East Coast, you can realize the impact that this shortage will have on the homeowner.

Domestic supplies are already very tight. The API statistic shows that distillate stocks are higher than a year ago, but we do not believe that stocks can be built up to safe levels this summer because of the extraordinary demands for production of gasoline. The summer of 1973 will be a repeat of the summer of 1972—gasoline will be produced at the expense of heating oil. In brief, we face a repeat of the dreary cycle of shortage.

Some supplies of No. 2 fuel are available from foreign sources, and some additional access to those supplies has been provided under the new Oil Import Program. But foreign distillate is already selling at prices that are well above domestic and continuing to escalate, as more and more American buyers enter the foreign market. Included among these buyers are most of the major oil companies and the large utilities. The majors and the utilities obviously view the new import license fee of 15 cents per barrel as no barrier, for they are scouring the market for all the heating oil they can find. For example, the largest utility in Florida told a House Committee two weeks ago that it was sending representatives to the Arab countries to buy fuel oil directly; they are seeking 33 million bbls per year. It should be noted that this purchase, by one utility alone, is equivalent to 1/3 of New England's total annual consumption of No. 2 fuel oil.

In brief, unless the Government and the Congress act and act soon, what lies ahead for the Northeastern states is a shortfall in domestic No. 2 fuel oil supplies, increasing reliance on high priced foreign oil, physical shortages in many areas, and as in the case of gasoline, the eventual destruction of the independent fuel oil marketer. One of the members of our own Association has already been removed from the ranks of the independents. Less than a week after the announcement of the new Oil Import Program, the Union Oil Company of Boston was bought out by a refiner, the Coastal States Gas Producing Company of Corpus Christi, Texas.

As this Committee is well aware, heating oil is a vital fuel. If there is a physical shortage of gasoline will mean some inconvenience to some drivers; a physical shortage of heating oil poses a direct threat to the health and safety of millions of families, particularly in the Northeastern states and New England, where dependence on heating oil is the highest.

Given this background of potential shortage and destruction of the independents, we should like to offer six recommendations for action:

First, the Federal Government must, unlike last year, recognize the danger and act before mid-year, that is by July 1.

Second, the Oil Policy Committee should act to increase, on July 1, the No. 2 fuel oil import allocations for independent deepwater terminal operators from the current level of 50,000 b/d to a minimum of 150,000 b/d. As this Committee knows, we were deeply disappointed by the last minute rejection of recommendations to increase the level to at least 100,000 b/d. This was a severe blow, particularly in view of the strong evidence of shortage we presented to the Oil Policy Committee.

Third, the Oil Import Appeals Board must act quickly on pending applications for No. 2 fuel oil imports which meet the criteria established by the Board. However, we should add that, while we welcome the opportunity to seek relief from the Board, we do not believe it offers an effective, long-range way of doing business; it is very difficult to run a business on expectation of a year-by-year allocation.

Fourth, the Oil Policy Committee should take immediate steps to discourage the use and importation of No. 2 fuel oil from abroad by utilities. Massive purchases of No. 2 fuel oil in the world market by these companies is a sure prescription for high prices and shortage in the home heating sector of the market. Not only that, the use of No. 2 fuel by utilities is extremely wasteful. A home heated electrically (when the electric power is generated by burning No. 2 fuel in gas turbine generators) consumes 2½ times as much No. 2 fuel to heat as a home directly with an oil burner. This nation can no longer afford the luxury of that kind of waste of a critically short resource.

Given these facts and the current energy crisis, we simply cannot understand why continued promotion of electric heating is permitted.

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Fifth, the Federal Government should continue its efforts to encourage the states to relax sulfur content standards so that the increasing amounts of No. 6 fuel oil can be burned in place of No. 2 fuel oil and so that there can be a substantial reduction in the use of No. 2 fuel oil as a blend.

Sixth, as indicated in above, we recommend enactment by the Congress of allocation or rationing legislation and enactment of legislation to provide relief before the Federal Trade Commission. In brief, it is essential that supply and price relationships which existed during prior years and maintained until the current supply crisis for No. 2 fuel oil has passed.

3. THE OIL IMPORT PROGRAM

Before concluding, Mr. Chairman, we should like to offer our comments and reactions to the new Oil Import Program which was announced by the President on April 18. As you know, the new Program is embodied in extensive amendments to Presidential Proclamation 3279 and Oil Import Regulation I.

We support the basic objectives of the Program. We have long urged that domestic refining and storage capacity be increased and have supported efforts to reduce long-term reliance on foreign sources of crude oil and petroleum products.

But we are concerned that the economic theories on which the new program is based simply do not apply to the petroleum market. We fear that, as in the case of the original Oil Import Program promulgated in 1959, the objectives will not be achieved and, in fact, the actual results will be the opposite of what was intended.

We should remember that those who have criticized the Oil Import Program for so long, including the Chairman of this Committee and many of his colleagues, did so because it was not doing what is was intended to do. After 14 years of a program designed to encourage domestic production and exportation and reduce reliance on foreign imports, we find domestic production declining, domestic reserves at an all-time low, and reliance on foreign sources increasing with every year.

Our chief problem with the new Program is that it appears to be based on the classic laws of supply and demand, and attempts to use a fee or tariff-type mechanism to translate the forces of supply and demand into certain results. Unfortunately, as we have pointed out, the reality is that the forces of supply and demand simply do not apply to an integrated international oil company which operates production, refining, and marketing facilities on both sides of the tariff or fee barrier. These integrated companies make business decisions on a much different basis from others in the petroleum business, their costs are different and their internal price structures are different. Therefore, the simple fact is that the impact of fees on integrated oil companies and their corporate decisions is much different than the impact on all other oil companies. We can attest to this fact on the basis of many years of experience as petroleum marketers both here and abroad.

It is essential to understand the difference in the economics of the independent and the international majors in the world market. Quite simply our cost is determined by what we pay for product and freight to land a cargo of oil at our terminal. The international major has a far different set of costs.

To begin with, the international majors own or control most of the world's crude oil production outside of the Soviet Union. They also own or control a substantial share of refining capacity around the globe. When thier U.S. affiliate buys gasoline or No. 2 fuel from a foreign affiliate, it's cost is more often than not simply an interaffiliate transfer price that need bear no special relationship to the arms-length market price we must pay. The major is interested in optimizing its profit from an integrated worldwide operation. I don't blame them. I just want this Committee to understand the disproportionate power and leverage the multi-national integrated major has vis-a-vis the independent U.S. marketer.

Even in dealing with a foreign private independent refiner the international major has a great advantage. The major can tie crude supply to product off-take. If an independent refiner has a surplus of any product, the major can take it and dispose of it in a third market through its own affiliates in order to secure a product in tight supply. This explains why, when we and

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a major are competing for a limited volume of product produced by an independent foreign refiner, it is the major who invariably gets the product.

Thus, we fear that the new Oil Import Program may never achieve the excellent objectives set forth in the President's Energy Message and the statements of the Chairman of the Oil Policy Committee in support of that Message. Even worse, from our point of view, the short-term implementation procedures—the phasing up of fees and phasing down of fee-free imports—wil result in the destruction of the independent segment of the market, more concentration of power in the integrated companies and great harm to the American consumer.

To be more specific, we should like to present a list of problem areas on which we hope this Committee and the Oil Policy Committee can review and act upon.

We should like to state first that the new policy procedure and administrative structure appears to be a more efficient and more responsive one, and we are most encouraged. Deputy Secretary Simon's decision to appoint regional committees of independent marketers was a constructive one, and the improved communication and exchange of ideas that will result from his action can be helpful. The attitudes and accessibility of Mr. Simon; his deputy Mr. William Johnson; Assistant Secretary of the Interior Stephen Wakefield; the Director of the Office of Oil and Gas, Mr. Duke Ligon; and the President's Consultant on Energy, Mr. Charles DiBona have been equally encouraging. We sense a real change in approach and a commitment to make the new program work. Our suggestions are, therefore, offered in a spirit of cooperation and the hope that we can continue to work with the Oil Policy Committee, the Department of Interior and the White House Special Committee on Energy in seeking effective solutions.

We do not believe that massive changes in the new Program are needed nor desirable; we agree that stability is required. A business that is as closely regulated as oil must be able to plan and act with some assurance that Government regulations and policies will remain reasonably stable. But, as we have indicated, when a crisis occurs—and the threat to independent marketers is a crisis—certain changes must be made, to prevent serious consequences.

Our five problem areas are as follows:

1. The impact of the Fees

We are particularly concerned about what happens if, by the time the fees have escalated to their high point in 1975, enough additional domestic refining capacity has not been built. What then? Should the escalation be delayed? Perhaps those who have the greatest difficulty in finding product from domestic sources, such as independents, should receive additional allocations on a lower fee or fee-free basis.

Another concern is whether the fees are any deterrent at all to the importation by the major oil companies and utilities of finished products. Frankly, we do not think so. The majors' costs are much different; they can import vast volumes of gasoline, heating oil and residual oil, pass the cost of their fee through their systems and suffer no adverse effects. In the case of utilities, they can simply pass the cost of fees on to the consumers under their rate escalation clauses.

2. Imports of Finished Products by Majors

Our discussion in the preceding paragraph leads to what we believe the most grievous flaw in the new system, particularly from the point of view of independent petroleum marketers: the fact that major oil companies and utilities are permitted to import finished products. We have stated to the Oil Policy Committee on numerous occasions and are stating here today that, given current limited availability of foreign supply, to allow the majors and utilities to import at all, even on a fee paid basis, throws them in direct competition with the smaller independent; it is clear, based on our own experience, who will win this competition.

We urge that this aspect of the program be reviewed and reversed. An absolute prohibition on importation by majors and utilities will not prevent a high level of imports of products. In fact all that is available can be imported by independents. But such a prohibition will prevent the continued export of

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refining capacity (which results when those with domestic refining capacity that can be expanded decide to import products); such a prohibition will allow the independents to survive and grow as a competitive force in the marketplace.

3. Storage Capacity

We agree with the Oil Policy Committee that the license fee program can provide incentives for construction of additional domestic storage capacity. We hope that an effective incentive system can be developed and will be pleased to work with the Oil Policy Committee in any way possible.

4. The Oil Import Appeals Board

As indicated above, we feel that the Oil Import Appeals Board can help, but should not be viewed as the complete answer for independents. In fact, if the majors and utilities are able to corner the foreign market in gasoline and heating oil, the Oil Import Appeals Board licenses will be of little use. Even if some foreign supplies are available, the heavy demand may continue to drive foreign prices beyond the reach of American independents.

Further, we are concerned that the procedures of the Board will be subverted by the major oil companies, particularly in the case of gasoline. As we have pointed out, there is a great incentive for the majors to buy gasoline tickets or work out phantom exchanges to secure such tickets. This must not be allowed to happen. Procedures must be established to assure that independents who receive allocations actually import the oil for distribution in their own distribution systems or exchange such tickets on a barrel-for-barrel basis to receive product for use in their own systems. We see this as a problem principally of enforcement and supervision, and we will be glad to cooperate with the Office of Oil and Gas and the Board in developing effective surveillance procedures.

5. Section 30

We are pleased that the Western Hemisphere purchase limitation has been suspended by the Chairman of the Oil Policy Committee. This action will help immeasurably in assuring the most effective use of the import allocations received under this Section.

Unfortunately, as we have indicated, the allocation level of 50,000 b/d is woefully inadequate. Our supply gap, the gap between our demand and domestic supplies—is very severe. We will need to import substantial additional amounts of No. 2 fuel oil over the coming year. Some allocations may be available from the Oil Import Appeals Board, but what is really needed and what will be most effective is a decision to increase the regular program to a level of at least 150,000 b/d.

In addition, consideration will have to be given, within the next year, to the question of whether, given the shortage of domestic product, the No. 2 Fuel Oil Program should be reduced in accordance with the schedule established by Section 11 Proclamation 3279, as amended.

In conclusion, Mr. Chairman, I should like to thank you and the members of the Committee for your continuing efforts on behalf of the marketers and consumers of heating oil and gasoline. We are grateful for the opportunity of appearing before you today and will be pleased to respond to any questions that you may have.

Thank you.

Attachment A

MEMBERS—INDEPENDENT FUEL TERMINAL OPERATORS ASSOCIATION

Belcher Oil Co., Miami, Fla.
Burns Brothers Preferred, Inc., Brooklyn, N.Y.
Cirillo Brothers Terminal, Inc., Bronx, N.Y.
Colonial Oil Industries, Inc., Savannah, Ga.
Deepwater Oil Terminal, Quincy, Mass.
Gibbs Oil Co., Revere, Mass.
Mennan Oil Co., New York, N.Y.
Northeast Petroleum Corp., Chelsea, Mass.
Northville Industries, Corp., Melville, N.Y.
Patchogue Oil Terminal Corp., Brooklyn, N.Y.
Ross Terminal Corp., Bayonne, N.J.
Seaboard Enterprises, Inc., Boston, Mass.
C. H. Sprague & Son Co., Boston, Mass.
Webber Tanks, Inc., Bucksport, Maine.
Wyatt, Inc., New Haven, Conn.

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Attachment B

No. 2 Fuel Oil Demand—Supply Projections [1] 1973–74

	Barrels per day
Total demand, independent deepwater terminal operators, district I [2] May 1, 1972 to Apr. 30, 1973	260,000
Total demand, independent deepwater terminal operators, district I May 1, 1973 to Apr. 30, 1974 (assuming a 7 percent increase in demand and that independents maintain—but do not increase—their share of the east coast market)	278,000
Supplies available from domestic refineries (based on current information from suppliers; however, this projection may prove optimistic)	85,000
Supply gap, district I, 1973–74	193,000

[1] See also projections on p. 16 of petition of Independent Fuel Terminal Operators Association to Oil Policy Committee, June 5, 1972; and projections supplied by association to committee, Nov. 30, 1972, and Mar. 15, 1973.
[2] Includes all independents who qualify under section 30 of oil import regulation.

Senator McINTYRE. Thank you very much.

We call as our next witness Mr. William R. Deutsch of the National Oil Jobbers Council.

Mr. GREGG POTVIN. Senator, I will be giving the statement for him. Mr. Deutsch is here as a resource witness.

Senator McINTYRE. Mr. Potvin.

Mr. POTVIN. Yes, sir.

Mr. Chairman, I shall, if I may, take about 1 minute on the written part and then give you some specifics to back it up.

An increasing number of oil jobbers today find themselves placed in a position that suggests they will not be able to survive economically for any prolonged period of time.

Some suppliers are meeting their contractual commitments. A number are withdrawing from States or even entire regions of the country. Many are also cutting off individual jobbers.

As you know, an amendment that is frequently referred to as the Eagleton amendment or sometimes the McIntyre amendment is now law.

We suggest that you give Mr. Simon, by whom we are impressed, a chance to use those powers before enacting further legislation.

I would simply like to join the independent terminal operators in saying for God's sake, do not let them repeat the folly of last year, waiting until the first snow falls before we worry about fuel oil.

The gasoline shortage is all too apt to spawn a fuel shortage next winter. While Mr. Simon is up here, we are most hopeful that you will lay to rest this question of whether there is a hemispheric restriction or not. It is still in the proclamation. He reputedly has written a memorandum, but it is scarcely a subject that you would want unresolved.

We are not able to quantify the hardships being encountered by oil jobbers throughout the Nation. We do know that they are extremely serious, that they exist nationally in the truest sense of the word and they are increasing rapidly. Currently, we are in the process of receiving returns to a questionnaire circulated several weeks ago which should allow us to give you a rather precise profile of our members' supply difficulties.

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We would ask permission, Mr. Chairman, that we be allowed to submit this as soon as the returns are received and tabulated—hopefully—for inclusion in your record but at any rate for such use as may appear appropriate in your judgment.

We would like to join our voice in saying that the Cost of Living Council simply must allow the price of petroleum products to increase to an extent which will reestablish the relationship of domestic prices to world prices.

At the present time, there have been discriminatory price increases placed on jobbers while dealers' tank wagon price remained unchanged.

That is just a polite way of saying they have decreased our margins and we cannot survive.

Now, as a very specific example, I would like to give you some examples of what has happened.

There are not many metropolitan gasoline jobbers left. The capital burdens are just too extreme. But we more or less own the markets that are small-town and rural. They tend to be jobber supplied. If they are not to be supplied by jobbers, majors will take a terrible financial bath if they try to go in and do it themselves.

An example, a little town, Allegon in Michigan, a jobber named Doran Wedge was cut off cold. He tried to peddle his customers to other sources of supply. He has not been able to place a single one of them.

Let me tell you who they include: The local ambulance service, the hospital, the police department, the fire department, and virtually every farmer for miles around—none of them have gasoline today.

Senator McIntyre. Where is this?

Mr. Potvin. Allegon, Mich. It is a gentleman by the name of Doran Wedge.

Another example is a jobber in Yakima, Wash., volume of 16 million gallons a year was cut off by his supplier.

He supplied virtually every hop grower, every apple grower in that very fruitful valley. They are not able to find a new source of supply. This is what is happening, Mr. Chairman, and I do hope you take particular pains to look at the problems of the farmer, because next fall, next fall, when they have just a few short weeks to harvest the fruits of an entire year's work, if that fuel is not there, I do not know what they will do, and if their goods are not on the shelves and ready for consumption, I do not know what the rest of us will do.

One of the things that upsets us is that a number of suppliers are aggressively seeking new customers for themselves and diverting that product away from the small businessman, the dealers, the jobbers, the private branders.

It is disquieting, Senator, to have your supplier call you five times in 3 weeks and say "May we send our real estate men to see your station?" That is the sort of thing that is happening.

In too many instances our major suppliers have placed pressure on jobbers and said, do not go to the meeting with your Senator.

One midwestern Senator——

Senator McIntyre. Do not go to what?

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Mr. POTVIN. Do not go to tell your representatives in the Congress what your problems are, stay away from them. They have encouraged them to come in and legislate against needed legislation.

These are not too subtle pressure tactics and I think it is time that someone blew the whistle on them.

Another example, you market ably and well for the mutual profit of yourself and your supplier for a number of years, and yet get in this case 6 weeks' notice that they are not going to supply you any more.

Senator MCINTYRE. Who gave you 6 weeks notice?

Mr. POTVIN. I would like to submit for the record this particular cutoff letter which is from Citgo, but there have been hundreds and hundreds and hundreds of them from a great many of the major suppliers.

Senator MCINTYRE. I do not understand what you mean when you say that some of these majors—I do not know the majors—but you said they are looking for new customers.

Mr. POTVIN. They are looking for new commercial accounts first.

Secondly, new properties where they will market through their own service stations.

Senator MCINTYRE. Let me see if I understand.

Suppose I am buying from Diamond Oil. I am getting my gasoline or whatever it is from Diamond Oil Co. Diamond calls up and says, "I am sorry, we have been shut off. I cannot provide you any more." I get a telephone call from one of the major suppliers.

"Can we enlist your account? Can we now serve you?" Is that what you are talking about?

Mr. POTVIN. That is what I mean. Here is one form it takes. Humble is opening Alert stations. Citgo is opening Research stations, Mobil is opening Sello stations. These use the same sort of pattern that the SIGMA marketers have used, low cost and low service and investment. They are diverting that product from the Nation's small businessmen to their direct distribution.

We do not feel it is right. Again far too little notice is being given. If there is a shortage, we concede there must be allocations, Senator, but just as our suppliers must have that right, so must small business marketers.

Here is what happens. I again have an exhibit that happens to be a Texaco example for the record. They will phone on the 26th or 27th of the month and they say you have been on allotment since the first and by the way, you have 2 gallons left. What about the next customer that you were going to serve that now is not going to get any? This lack of notice deprives the small business marketer of making some reasonable allocation between the needs of his customers. Suppliers should certainly be required to give 30 to 60 days' notice about placing our guys on allocation so that we, in turn, can act fairly with the consuming public.

What does it do to the consumer? I tell you now that lack of adequate notice means that some consumers get very, very short shrift and really unfair treatment because we have no choice. That is true of heating oil as well as gasoline.

Senator MCINTYRE. The exhibits will be accepted without objection.

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[The information follows:]

CITIES SERVICE OIL CO.,
Hinsdale, Ill., April 17, 1973.

Re Branded Distributor Agreement Termination.
Mr. HARVEY JOHNSON,
PENN-GUIN OIL CO.
Chicago, Ill.

DEAR MR. JOHNSON: In reply to your letter dated April 3, 1973 and confirming my conversation of April 16, 1973, your Branded Distributor Agreement with our company dated by letter of February 9, 1973 stands terminated May 31, 1973.

You should consider this our notification that in accordance with the terms of the lease agreements mentioned below, said lease agreements shall also stand terminated May 31, 1973:

Lease Agreements

Lease to Tenant dated September 28, 1972 and all related documents—No. 12-031-211, 7169 N. Milwaukee, Niles, Illinois.

Lease Termination Provision

Paragraph Two.

You are further advised that following said termination date, your company should:

a. Cease and discontinue any further use of our company's CITGO brands and trade name in connection with your sale, storage and delivery of petroleum products;

b. Discontinue any further use of our company's identification, trademarks and brand names, and return all signs, poles, or other identification items furnished or leased to you by CITGO immediately;

c. Return all CITGO Credit Card imprinters, equipment and materials to our company and not accept CITGO Credit Cards or invoices from customers or dealers incident to your sale or resale of petroleum products without the prior written consent of CITGO.

Arrangements for the return of CITGO loaned equipment will be coordinated through your sales representative and field engineer.

If there are any questions concerning the above, please advise.

Very truly yours,

C. T. PABIAN,
Area Sales Manager.

NORTHRUP OIL CO.
Chillicothe, Ill.

I received a call today, 4-24-73, from Tom Northrup and he said that he was in trouble with Texaco. He said that they informed him that he had 5.500 gallons until the end of the month and he really needs this much daily. They said he was on allotment and that is all. He sent a telegram to Texaco. It had to go to New York for approval. He asked for 100,000 gallons for farm sales. They told him that others had not been approved.

He is allocating his farm accounts to 100 gallons per delivery. They tell him they can get all they need from Standard Oil.

Northrup Oil has been in business many years servicing farms, home heating, and service stations. They are now faced with loss of their business.

Mr. POTVIN. We hope you will look at pipelines and the question of whether they are being used in a monopolistic sort of way. I know that your very able staff knows a great deal about processing agreements, and I hope your committee will get into that area before you complete your studies.

One point everyone has been ducking—I do not think you can have a successful hearing unless it is laid squarely on your podium.

So, I am going to do it. It goes like this. First, we have talked about the diversion of products from the small business column to the direct marketing column by the large majors.

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I think on that question, all small business marketers really are united. We do not think it is right. Within the independent ranks, though and you are independent whether you are a branded jobber or whether you use your own name on the sign even if there are some differences. A lot of people buy on contract, branded and unbranded.

For many, many years they have paid really a tremendous premium. Just a year or a year and a half ago there were many witnesses in before one of your sister committees, pointing this out, and that the premium charged for branded gas was so excessive, so unreal, so artificial, that it prevented the sort of price competition that Professor Allvine so eloquently espoused a few minutes ago.

The private brander on contract also paid a premium, less so but still a premium. Others because excess gasoline and at much lower prices knowing it was excess.

Now, you just have a very difficult exercise in ethics and business morality trying to decide what are the relative rights of the parties. If I buy excess gasoline at a much lower price knowing it is excess, what kind of a historic track record does that give me a right to—the same bundle of rights that a contract buyer that was paying a premium, you might liken it to an insurance premium because one of the things he was buying was continuity of supply?

When, for the first time, it has become important, there are those who say even though you paid for continuity—now you cannot have it. So, I do think you have got to make those distinctions.

This is a question that you must deal with and not gloss over.

Thank you very much.

Senator McINTYRE. The big oil companies I take it or the majors, they are pretty well represented, and I am sure that their arguments on that basis will be heard. But I am delighted to have you mention them. I said at the beginning we want fair and open hearings. Let me move on here quickly to Mr. Deutsch.

Mr. DEUTSCH. I bring to you the facts of what is happening in Illinois and the Upper Midwest.

The gasoline situation is daily getting worse out there. Your State governments are beginning to scream now because, when they go out asking for contracts for their gasoline allotments for the coming year, they are quickly told that nobody will bid and no bids come in.

I noticed yesterday as I was coming down on the plane, the State of Missouri was getting worried on how they were going to fuel their police cars—unless they went into service stations which means they would have to appropriate more money.

In Illinois we are going to lose about a half-billion gallons by June 1 of the market. The jobber market is a little over 2 billion gallons. That means one-quarter of the market is going to be gone out of a 5-billion market.

This was the figures from last year. What I have done is to put together the companies that have either already left Illinois, that are planning to leave, or the ones that are going to be gone by June 1.

There are three segments in there because some have announced, like Gulf that they will not leave until the end of the year.

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Already we have lost Triangle Refineries, Clark Oil, and sections of Cities Service and Sun Oil. So we are a half-billion short in Illinois right now when the first of June hits.

From there on, it is going to be rough because right now they are trying to allot enough product to the farmers.

The only thing that has been saving them out there, like the warm weather saved the winter on the heating oil, the heavy rains that we have been having out there have kept the farmers from getting into the fields.

Last week they got into the fields for 5 days before the weekend of rain started in again. Right quickly we began to get calls from farmers. The States have a hotline which the farmers call in on. They, in turn, call us. I can tell you that hotline was hot on Friday and Saturday.

In fact, they kept it open on Saturday. These farmers are having a hard time getting product to do their spring plowing, the planting of crops.

In fact, with the lateness of the season, a lot of them are overlooking the plowing and they are doing what is called cutting and planting, because they do not have the time to do what they should do.

Not only in Illinois but the entire upper Midwest.

[The complete statement of National Oil Jobbers Council follows:]

STATEMENT OF ROBERT SCHRIMPF, CHAIRMAN, GASOLINE COMMITTEE, NATIONAL OIL JOBBERS COUNCIL

Mr. Chairman, I would like to commend you and your colleagues for holding this much needed hearing. I am appearing here today on behalf of the 13,000 small businessmen from the 48 continental states who sell approximately 25% of the nation's automotive gasoline and 75% of its fuel oil requirements. As you know, the extreme shortage of supply of gasoline, diesel fuel and number 2 heating oil being currently encountered by small business distributors constitutes an increasingly serious problem that in many instances is already at the survival level.

At the present time, an increasing number of oil jobbers find themselves placed in a position that suggests they will not be able to survive economically for any prolonged period of time. A number of suppliers are withdrawing from states or even entire regions of the country. Many suppliers are also cutting off individual jobbers. This is being done on a basis quite independent from whether they have been efficient marketers or not, frequently the criterion primarily relied upon appears to be the net return rendered to the supplier. A smaller jobber is particularly vulnerable to this sort of treatment. Needless to say, the small town or farm customers that he serves will have no alternative source of supply if he is cut off. In an aggregate sense, this may well have a most serious impact upon the nation's agricultural sector. Many branded jobbers are also being placed on severe allocations which makes it impossible for them to serve the needs of their customers. Unbranded small business marketers are also undergoing considerable difficulty in obtaining an adequate source of supply.

To survive, the nation's small business marketers of petroleum products must have an adequate and continuing source of supply ot a price which allows them to be fully competitive. Denied either of these, it is clear that thousands of them will perish. The net result of this will be a fantastic added increment of economic concentration.

Recently, Congress has enacted into law a provision for the allocation of petroleum products to prevent undue hardship to any region of the country and also to prevent anticompetitive effects resulting from current shortages of petroleum products. Since that time, there has been an increasing proliferation of new legislative proposals directed towards a solution of current petro-

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leum distributive problems. It seems to us that Mr. William Simon, Chairman of the Oil Policy Committee, has proven both his sincerity and his ability. It seems to us that it would be shortsighted, in the extreme, not to give Mr. Simon and his newly granted powers under the so-called Eagleton Amendment a full chance at effecting workable solutions before any further legislation is considered. It is our thought that there is good reason to suppose that negotiations between Mr. Simon and his very able staff and the nation's integrated refiners may well result in a voluntary solution which would best serve the public.

In the interim, there is, of course, a number of individual cases in which suppliers have used indefensible tactics.

In advocating that no further legislation be enacted until it is determined whether the so-called Eagleton Amendment holds the ultimate answer to present difficulties. let me emphasize that we do feel that it is of prime importance that the Congress continue its investigations and maintain its present intense level of interest in this problem. It may well be that difficulties in the near future will dictate a speedy response on the part of the Congress if the public interest is to be preserved and protected in this vital area.

The only exception constituting a present need for additional legislation might be, Mr. Chairman, that as Senator Jackson's Bill suggests it does not appear that the present state of the law allows the use of the Eagleton Amendment powers on behalf of the public health, safety and well being. It may well be that this is an addition which is presently needed to further protect such vital needs such as hospitals, police departments, fire departments, etc.

While we are all currently absorbed in the gasoline shortage, let it not be forgotten for one moment that all of the products processed from a barrel of crude oil will inextricably be interrelated. Let us, by all means, insure that we do not repeat the folly of last winter and wait until the first snow has fallen before worrying about an adequate supply of heating oil. As you know, Mr. Chairman, much of the genesis of our current shortage of gasoline may be attributed to the nation's refineries having to churn out fuel oil long after the gasoline build-up customarily would have commenced. By the same token—a realistic appraisal indicates that one must fear that the need to supply sufficient gasoline through the summer and early fall months may add greatly to the supply difficulties for the heating sector of the industry next winter.

Mr. Chairman, one of the salient points in viewing the oncoming heating season is the dire necessity of converting much of the industry and the vast majority of the nation's electrical utilities from heating oil to coal. There is, in being, technology which renders it economically feasible without undue harm to air quality to consume coal for industrial and utility purposes. Make no mistake about it—the alternative is the consumption of hundreds of millions of barrels of desperately needed number 2 heating oil to fuel the so-called gas turbine generators for electrical utilities. Sadly, this is a most inefficient use of a scarce resource. That portion of the electrical energy so produced which is consumed for space heating produces only a fractional number of BTUs which would be produced by applying the same amount of heating oil directly to residential heating consumption.

We are hopeful, too, Mr. Chairman, that the Administration will see fit to remove the Western Hemispheric restriction which has done so much to impede the orderly procurement of heating oil supplies as well as gasoline supplies in the world market.

Mr. Chairman, the National Oil Jobbers Council represents both branded and unbranded marketers. We are hopeful that both may be accorded equitable treatment by their suppliers. However, it must be noted that contract buyers—both branded and unbranded—for decades now have been paying a much higher price than those who have bought excess gasoline in the so-called "spot" market. Spot buyers were buying excess gasoline at a most advantageous price with the full knowledge that should there be no excess, there would be no spot market. It seems to us that you have a most difficult exercise in ethics and business morality to determine the degree to which it is morally defensible to invade the subsisting contract of a small businessman who has paid a distinct premium for its continuing existence in order to supply those who currently find that shortages have dried up previously existing supplies and thereby the spot market. Further, both the Congress and the Administration are confronted with substantial constitutional questions as to the degree to which subsisting con-

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tracts can be abrogated or abridged without the declaration of a national emergency.

It is most difficult for us today to quantify the hardships being encountered by oil jobbers throughout the nation. We do know that they are extremely serious, that they exist nationally in the truest sense of the word and that they are increasing rapidly. Currently, we are in the process of receiving returns to a questionnaire circulated several weeks ago which should allow us to give you a rather precise profile of our members' supply difficulties. We would ask permission, Mr. Chairman, that we be allowed to submit this as soon as the returns are received and tabulated—hopefully, for inclusion in your record, but at any rate, for such use as may appear appropriate in your judgment.

A further point that requires extensive study and action by the Congress is the enlarging of the supply of crude by approving a pipeline route from the northern slope of Alaska. Many feel that the so-called alternate route through the McKenzie Valley in Canada is preferable to the western route. At any rate, however, it is clear that undue delay is indefensible. We also wish to urge upon you the granting of such incentives to the refining sector of the industry as may be necessary to achieve increased exploration, production and refining capacity. This includes such specifics as the encouragement of offshore drilling with adequate environmental safeguards and the establishment of superports. It is also imperative that the Cost of Living Council allow the price of petroleum products to increase to a degree which will reestablish the relationship of domestic prices to the world price. At a minimum, it is clear that at the earliest possible time world prices must be allowed to be averaged with the domestic prices. Otherwise, different sets of consumers will be confronted with substantially different prices for the same commodity.

Recently, a number of suppliers have imposed discriminatory price increases upon jobbers while leaving their own retail prices unchanged. To impose a price increase at the wholesale level while leaving the price to retailers unchanged is actually an erosion of the wholesalers' margin. Suppliers should not be allowed to single out one class of customer from a commodity classification to increase their net realization of profit. If they are going to raise the price of gasoline or any other commodity, they should certainly be required to do it across the board.

Mr. Chairman, we would like to thank you and your colleagues for this opportunity to appear before you at the time when the survival of so many thousands of small businessmen in the petroleum industry is in the balance. We appreciate your interest, your concern and your courage in pursuing these difficult issues. We shall be happy to respond to any questions which you may have.

Senator McINTYRE. We call on Mr. Doug Baker of the National Self-Service Gasoline Association. Mr. Baker, we welcome you here, and Mr. Jim Parrish. Do both have statements you wish to make?

STATEMENT OF JAMES R. PARRISH, PRESIDENT AND GENERAL MANAGER, U GAS UM, INC.

Mr. PARRISH. My name is J. R.—Jim—Parrish. I am president and general manager of U Gas UM, Inc. with headquarters located in Denver, Colo. We have eight self-serve gasoline stations located in the States of Nebraska and Wyoming.

I am here on behalf of myself and the National Self Serve Gasoline Association which has approximately 200 members who own and control approximately 9,000 self-service gas stations in the United States. I am going to deviate considerably from my statement in the interest of time and explain that one of the reasons I and some of the members of our group thought that I should testify is that I am probably the littlest operator that will offer any testimony here as far as the size of business is concerned.

Certainly, I am not in the category with Mr. Lichtman or the gentleman from Alabama, although our problems are the same.

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I would like to explain that in my own situation two of my stations in Eastern Nebraska will probably be closed before I return from these hearings for lack of product.

I have made attempts to secure supply for those stations. One of them just opened for business less than 6 months ago, on October 20. I have a $91,000 mortgage indebtedness on it, and because of my testimony here, if it gets to my banker back in Nebraska, I am sure he is going to be calling some loans on me. That is a risk that I had to take.

Additionally, on the 20th of this month, I will probably lose my assured supply for two Western Wyoming stations. I have no idea where I will get a supply for those.

If I close those, I will be down to 50 percent in operation. Unfortunately, with the chain of 8 stations, my cash flow will not allow me to pay the mortgages on the rest of them.

My wife thought perhaps I was nuts to spend $5, $6, $7, or $800 to come down here knowing I was probably going broke.

I said, hell, I did not have any choice.

Senator McINTYRE. Put it on one of Arco's credit cards.

Mr. PARRISH. I might do that.

It should be pointed out for the record, I did this at length in my prepared testimony which has been submitted, that thousands of both large and small operators like myself have never purchased our gasoline requirements on a contract. We have, in fact, as Mr. Potvin pointed out, bought on what is referred to in the statement as "rack" pricing.

But I would like to point out, we were a darned important piece of business to those refiners for this reason: They were able, through the purchase of people like SIGMA and the gentlemen at this table, to run their refineries at a greater degree of capacity because of the product we purchased from them.

They would not have given it to us if they had been able to sell it through their own branded outlets. The old law of the incremental barrel on profits certainly applied there.

Additionally, we did buy at a somewhat less price than some of the branded type customers of their own. But, I used to be marketing vice president of an independent refining company and in this particular company we made more money on the unbranded or rack buyers. For what reasons?

Our rack buyers had to furnish their own transportation. They delivered product to their own stations whereas branded people have a freight allowance. Rack buyers get no price protection, there is no advertising expense, no credit card expense. The supplier does not help pay for the investment in station facilities of rack buyers nor spend huge advertising expenditures as is done for branded stations. Add that all together and there is significant savings.

We have in fact performed a very significant function for the people who today are cutting us off.

I do not think I need to elaborate any further on the importance of the independent or private brander to the refiner-supplier. I would like to point out our importance to the consumer.

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I opened one of my eight stations 2 years ago, at an expense of about $75,000 in Rawlins, Wyo., a town of about 7,000 people. The principal payroll there comes from the State penitentiary and the Union Pacific Railroad. When I opened there was very little independent competition, only a couple of other independents. I opened at the independent's prevailing retail price which at that time was 7 cents per gallon underneath all the major stations in town. The major stations really had the bulk of the business.

I was tickled to death to give our customers a 7-cents-a-gallon less buying price for at that time, and for the first 12 months I was in business, I still made 11 cents a gallon. Ask any independent man in this room if he could not get wealthy on an 11-cent margin. I was still saving the consumer 7 cents a gallon.

This shows the impact in some areas that we have had on the consumer's pocketbook.

I mentioned that in all probability I will be out of business very soon.

I doubt that any suggested corrective actions that have been offered or that we will offer is in time for me. That is too bad but that is my problem. Maybe I can help some other little guy.

Senator McINTYRE. Is it not true from the day you first started to think about going into this self-serve business, you were dealing with the suppliers' excess and that you were always on the outer rim of the perimeter, you would be the first guy shut off if there was something to happen to the suppliers?

In other words, you were never a grade-A risk for me as an investor?

Mr. PARRISH. I have been in the gasoline business since the day I graduated from college, some 20 years ago, and some of it was the supplying end of the business. I have also been a trade association executive for the branded independent oil jobbers. Perhaps I should have been able to forecast a supply shortage but not even the major oil companies were able to forecast this shortage a few months ago.

They were continuing and are today for that matter continuing to build branded stations. I felt there was no risk. As recently as last November, I had people calling—knocking on my door to sell me products.

Now, I cannot understand in this computer age that we cannot forecast—certainly that the big billion dollar companies cannot forecast a little more accurately than 6 months and know that we are in a supply problem. This over-supply or excess situation has existed for the 20 years I have been in business and there was no reason to suspect that it was ever going to be any different.

I would invite the gentleman from SIGMA as well as the other private branders to back me up on that.

My banker certainly did not think it was a risk. And if I had thought it was, I assure you my name would not be personally on those promissory notes. I wish they were not right now.

I will wind this up shortly.

I have been so alarmed in the last 60 days about the fact that I would probably in fact go bankrupt that I thought maybe one course of action was to go back to all the refiners from whom I tried to buy

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product and offer them fire-sale prices to lease or buy my complete chain of stations. I have a file in my brief case with letters from 13 different refining companies turning me down. I felt if I could possibly pay my mortgages and get out whole, I would prefer doing that, obviously. I did not get a single offer. I did have one that took the time to charter an airplane and go around and look at some of them with me 2 weeks ago.

I would like to make a point of disagreement with Mr. Potvin in his statement.

The premium price that the branded jobber did pay over what we "Rack" buyers have been historically paying over the years was not just for continuity of supply. As I pointed out before, until the last few months, there was no reason to even remotely suspect that we would not have a continuing supply. But there were other reasons, obvious reasons for the branded jobbers to pay more. The brand acceptance. You, yourself, Senator McIntyre, indicated earlier you thought we sold lesser quality products.

Senator McINTYRE. Cut rate.

Mr. PARRISH. You bet, we are the bad guys in the black hats.

Senator McINTYRE. As far as I was concerned, you were.

Mr. PARRISH. You are not unique.

Also, for the credit cards. A big bundle of business is brought to retail stations by the fact that people carry credit cards. I take the bank cards, Bank America Card—Master Charge, and so on. And certainly there must be some advantage to the tremendous millions and millions of dollars that the majors have in the past, and for reasons I cannot understand, are continuing to spend on advertising. The answer they give us when they cut us off is we have got a supply shortage, but they are still advertising in the media for new business.

Our recommendations for corrective actions have all been mentioned here briefly, and Mr. Baker has a couple of statements about his business which apply to these hearings.

I appreciate my chance to come back here and talk to you from a little operator's standpoint. Anything that can be done will have to be done awfully fast. It can only be done on the executive level to be in time to help me.

Thank you very much.

Senator McINTYRE. Your full statement will be put in the record in its entirety.

[The statement of Mr. Parrish follows:]

STATEMENT OF JAMES R. PARRISH, PRESIDENT AND GENERAL MANAGER, U GAS UM, INC.

Appearing at this hearing on behalf of my company and the National Self Service Gasoline Association whose 200 members own and operate approximately 9,000 self service gasoline stations in 40 States.

Definition of private brand marketer:

1. Owns or controls by long term lease—one or more gasoline stations.
2. Utilizes his own brand or trade mark—not the brand of a refiner-supplier.
3. Purchases gasoline and/or diesel fuel on the open market, either directly from a refiner or petroleum broker.
4. Product is delivered to stations by own transport trucks or commercial carrier.

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5. Average station investment would range from a low of $10,000 for a small two (2) pump self serve outlet up to $250,000 for some of the large self serve or full service type stations.

6. Our company's average station cost is approximately $85,000.

1. HISTORY OF PRIVATE BRAND GASOLINE MARKETERS

They have grown in the last 25 years from an infinitesimal market position to a position today where they sell as much as 40% of the total in some geographic markets.

They have performed two very important marketing functions:

A. Importance to the Refining Segment of the Industry

1. The oil companies (both majors and independents) were able to operate their refineries at a greater percentage of capacity by selling to private branders when they were unable to market their entire production through their own branded stations.

This of course provided a greater return on stock holders investments.

2. Sales to private branders have been quite profitable for the refiners for other reasons, i.e.

A. No investment in the private branders marketing outlets.

B. No brand advertising expense.

C. No price war allowances or discounts.

D. No credit card expense.

E. No expensive lessee-dealer operator changes. Historically, gasoline dealers have had one of the worst mortality rates of all independent businessmen in the United States—upwards to 30% per year.

F. No delivery expenses.

B. Importance to the Consumer

1. Provided quality petroleum products at reduced prices—this was made possible by:

A. Originating the practice of by-passing bulk storage plants and making large tank car or transport truck deliveries directly from the refinery or pipe line terminals to the retail stations.

B. Originating the concept of multi-pump stations with large drives which made for greater station volume by speed of service.

C. Originated the self service gasoline concept which enabled the private brander to lower his labor expense and pass the savings on to the customer. Not only did the private brand marketer originate the idea of self service, but fought the battles with the city, county and state regulatory agencies in an effort to get the self service concept legalized. Today there are only six states which prohibit self service gas stations. This was done with no help from the branded refiners and many times considerable opposition.

D. And probably most important of all, the private brander provided an aggressive degree of competition in the market place which had here-to-fore never existed.

2. CURRENT PROBLEMS

A. Gasoline and diesel supply situations for private brand marketers is *critical* and getting worse daily.

1. During the last 30 days, hundreds of private brand stations have been closed due to the unavailability of product.

2. Increasing numbers of other private brand stations are forced to reduce station operating hours and in some cases are only open for business 2 or 3 days per week.

3. Many private branders have had their supplies completely shut off by their refiner-suppliers.

4. Most have had their supplies drastically cut or allocated.

5. This is in spite of the fact that many of these same refiners continue to advertise in the trade journals that they have product for sale to the private brand or independent marketer. (You have been furnished sample copies of their recent advertisements). Many of these refiners continue to construct or purchase new branded stations, several have discontinued use of their own brand identification at some of their stations and have utilized instead some unknown brand trademark such as Blue Goose, Jack Pot, Sello, Alert etc.—

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then cut the retail price in an effort to increase volume. Still others are making significant investments in car washing equipment so they can offer a free wash with gasoline purchases. It's really hard to comprehend.

B. The buying prices of the private branders are sky-rocketing while at the same time the phase three retail prices of the top 23 major oil companies have us in a vice that is squeezing the economic life from us.

1. You will note from the written material that I have furnished you that my own company has had product cost increases for gasoline and diesel fuel ranging from 21.5% to 59.2% during the period January 1, 1973 to May 1, 1973. Couple this with the fact that for *last* year my company's total gross profit was only *21.1%* of sales (documentary vertification of this has also been furnished to you gentlemen). Phase Three is a real disaster for us!! Most private brand companies are experiencing a similar squeeze.

C. How serious is this overall situation to my company U Gas UM? Two of our eight stations will be closed as soon as the present product is depleted from the storage tanks, probably before I return from these hearings. Exhaustive efforts have been made to find another supplier but to no avail. One of these was just opened for business on October 20, 1972 and has a $91,000 mortgage indebtedness against it. Two more of our stations in western Wyoming only have an assured supply until the 20th of this month. These also are quite heavily encumbered with mortgages and efforts to obtain a back-up supply have been futile.

3. SUGGESTED SOLUTIONS: SUPPLY AND PRICE

A. Either by administrative action (preferable due to the essence of time) or by legislative action there should be instituted a plan patterned after the "small business set aside" program used for years by the federal government to see that small independent refiners are given a chance to obtain a portion of the government's petroleum purchases.

1. All refiners should be required to offer a specific percentage of their refinery production of gasoline and diesel fuel for sale to private brand marketers based upon the percentage of purchases made by private branders to the total gasoline and diesel sales made by all refiners in the United States during a base period such as the month of July, 1972.

2. This "small business set aside" or "private brander set aside" as I shall call it, should be sold at the *same* price that each individual refiner sells to its branded jobber or wholesale accounts. By so doing, the refiner will in fact be making a greater profit on the gallons sold to the private brander since there will be no advertising, credit card, price protection, delivery expenses, or similar expenses involved.

B. Phase Three of the wage-price controls should be abolished so that the private brander and branded independent jobber for that matter, can recover these astronomical product price increases by adjusting the retail price accordingly. This cannot presently be done when the 23 largest oil companies in the U.S. (who are our competitors) are forbidden to raise their selling prices by more than 1½ percent.

C. Finally, controls or restrictions must be implemented which will prevent the large refiner companies with all economic advantages of vertical integration and special tax breaks from continuing on their push toward direct operated, private brand stations of their own which can price the private branders and independents out of business.

4. CONCLUSION AND SUMMARY

Gentlemen, small independent business men have been the backbone of this great country. Unless our corrective recommendations (or others very closely akin to them) are implemented immediately, very few of the Jim Parrish's or U Gas UM's will be around within the next 60 days to provide the competition so vital for the gasoline consumers!!

Categorically, it goes against my grain as well as those for whom I'm speaking to ask for government interference or regulation in our business. We have no other choice! Our future existence is in the government's hands. In closing I wish to advise that any and all of the people in our association are more than willing and would welcome the opportunity to assist in working out the mechanics of the recommended solutions I have outlined above. Please call on us.

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U Gas Um Inc. profit and loss statement for fiscal year Apr. 1, 1972 through Mar. 31, 1973

	Percent of sales
Total sales	100
Cost of gasoline	74.25
Cost of motor oil	.41
Cost of cigarettes	1.77
Cost of miscellaneous merchandise	.44
Cost of diesel fuel	2.02
Total cost of products sold	78.89
Gross profit	21.10
Operating expenses	16.14
Net profit before income taxes	4.97

INCREASE IN PRODUCT COSTS FROM JAN. 1, 1973 TO MAY 1, 1973

[Costs per gallon are excluding freight and taxes]

Station location	Gasoline cost Jan. 1, 1973	Gasoline cost May 1, 1973	Percent of increase
Sidney, Nebr	$0.13930	$0.16926	21.5
North Platte, Nebr	.14000	.17250	23.2
Kearney, Nebr	.13899	.19701	41.7
Hampton, Nebr	.13855	.18805	35.4
Cheyenne, Wyo	.13750	.16750	21.8
Laramie, Wyo	.12500	.16650	33.2
Rawlins, Wyo	.12500	.16650	33.2
	Diesel cost Jan. 1, 1973	**Diesel cost May 1, 1973**	**Percent of increase**
North Platte, Nebr	$0.10813	$0.13500	26.8
Hampton, Nebr	.10813	.17213	59.2

APRIL 19, 1973.

DEAR MR. JIM PARRISH, U GAS UM INC., All of our Supplying Oil Companies have changed, or will soon be changing their credit policy. Previously, they gave us 1% Ten Day Terms. Their new policy is NET; Receipt of Invoice. Effective May 1, 1973, we will also change our terms to NET; Receipt of Invoice.

Sincerely,

NORMAN KELLER,
Clayton Petersen Oil Co.

NOTES AND OPINIONS

By Marvin Reid, Midcontinent Editor

SUPPLIERS, JOBBERS AND DEALERS ARE PASSING ON LATEST PRICE HIKES

Several companies have now raised jobber prices without corresponding dealer tankwagon increases. Some effort, meanwhile, is being made by jobbers to pass hikes along to dealers with the latter sometimes encouraged to post higher pump prices.

The line-up of those having made jobber-price increases by last week included, according to field reports, such majors as Mobil, Arco, Continental, and Shell. Two independent suppliers, American Petrofina and Diamond Shamrock, were reportedly attempting increases of 0.55¢ gal.

In Corpus Christi, Tex., Mobil jobber T. A. Harrell Jr. increased tankwagon prices to his dealers by 1.7¢ gal. His buying price had been increased 1.5¢ earlier by Mobil. He encouraged his dealers to post 2¢ higher prices, at 35.9¢ gal. After two weeks, his volume was off 10% with some stations down

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as much as 35%. Normally, his April volume increases over March instead of declining.

Two volume losses, said Harrell, left him on the short end on profits despite the price increases to his dealers.

Harrell could get some relief, however, from considerable strength that now exists in the Corpus Christi market. Exxon has moved up to 33.9¢, full-service, or 2¢ over where its stations were when Mobil increased its prices. Also, Shell stations in Corpus Christi last week were posting 34.9¢, up 1¢, following a 0.5¢ increase in jobber prices. Other majors were posting at 29.9¢, long considered normal in Texas, while independents were solid at 29.9¢.

Conoco has increased its jobber price in Texas 1¢ gal. to 14.65¢. One jobber affected by the increase reports retail strength in his market has offset the hike, with his actual margin now running about 3.5¢ gal. compared to around 3¢ gal. over the past two years.

COST OF LIVING COUNCIL RESTRICTIONS SQUEEZE SOME

There were reports that other companies might wish to increase jobber prices but are caught in a squeeze by the Cost of Living Council's restrictions on 23 companies.

One of these, according to field reports, is Phillips. Some jobbers say that with this company moving up to 90% of its volume through jobbers, it can't raise jobber prices only as Mobil and others have done without exceeding price increase restrictions.

There was a report, however, that Phillips as well as others are moving to get out from under certain unbranded contracts as they expire. Some Phillips jobbers who buy both branded and unbranded from the company may find they can get only branded product down the road. Some such unbranded contracts are reported to be set as low as 12.75¢, compared to branded jobber price of 13.65¢. By switching volume to a branded basis, Phillips can increase its profits without making an actual price increase, jobbers explain.

Field sources reports, meanwhile, that some suppliers and National Oil Jobbers Council are putting pressure on Cost of Living Council to relax restrictions so tankwagon prices can be increased.

One report indicates that CLC may not have been aware that prices to classes of customers, such as jobbers, might be increased as compared to across-the-board action. A source says that some with this agency now understand there is a problem. "Whether they do anything about it or not is another matter," he says.

There was some anticipation during the week that others might follow Sun Oil's eastern dealer tankwagon increases, depending on what position they are in under CLC rules and any possible relaxing of those rules.

FIRST-QUARTER PROFITS HIT RECORD LEVELS; '73 OUTLOOK BRIGHTEST YET

Record-breaking first-quarter profit levels are being reported by the majority of the nation's oil companies. Not only that, many anticipate continuation of the booming operations throughout the rest of the year. If this happens, 1973 will probably be the biggest and best year in petroleum's history.

Atlantic Richfield, Shell, Sohio, Exxon, Marathon, Total, Ashland, Getty and Sun all reported profit increases of 40% or better in the first quarter. So did American Petrofina, Signal and Occidental.

Interspaced with the good news, however, were warnings that the supply situation could be very tight this summer and next winter. Perhaps Sohio's Charles Spahr phrased it best with the comment that "all signs point to at least five to six difficult years with growing dependency on foreign supply sources."

It will take years, he said, to find and develop new U.S. oil reserves and to build the additional transportation and refining facilities that are needed.

Firmer product prices and increased volumes were cited in most reports as the prime reasons for the spiraling profit levels. International companies said overseas volumes and prices for oil and chemical products also contributed materially to the splendid first-quarter showings.

Most oil-company executives expressed hope that the President's recent energy message would help relieve the energy crunch that is besetting the U.S. Union Petroleum Corp. of Revere, Mass., a family-owned corporation and one of New England's biggest independent wholesaler-retailer of oil products,

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has been purchased for cash by Coastal States Gas Corp., Houston, Tex. Sellers are Paul D. Kaneb, 30-year-old president and his brother, Richard, treasurer. Coastal States is a major producer and transporter of natural gas.

While principals wouldn't disclose volume, competitors put it at more than 250-million gal. a year. Sales are about $75-million a year.

Involved in the sale are Union Tanker Corp. (barges), Union Western Trade Corp. (western hemisphere oil purchases), Union Oil Trading and Shipping Ltd. of Bermuda (international oil trading and shipping); Glendale Morton Petroleum Corp. (retail fuel oil in Greater Boston area and in New Hampshire) and Glen Petroleum Corp. (retail fuel oil in southeastern Massachusetts).

The acquisition of Union Petroleum by Coastal States Gas has a number of other Boston-area independent wholesalers worrying. "We all bought from Coastal States," said one of them, "and they've cut all of us back."

Sun Oil has come up with a new wrinkle in allocation systems. Instead of using last year's gasoline figures, as most companies have been doing, Sun is looking at each distributor, estimating what he should or could be doing now, then allocating him 90% of that total.

The allocation system went into effect last week triggered, a spokesman said, by raw material shortages. It'll apply "throughout the company and its subsidiaries through all channels, including dealers, distributors and commercial customers."

Exxon was about ready last week to open its sixth fully self-service station in the Dallas-Fort Worth area and Sello Petroleum, Mobil Oil's self-service subsidiary, has opened a "grass-roots" unit in Dallas.

Exxon began its self-service building program in Dallas in late 1972. Five of its six units were built from the ground up. The company also has a number of conventional units in the two cities with split islands offering self-service.

FIRST-QUARTER NET PROFITS FOR MAJOR OIL COMPANIES (1973)

	Percent change 1972–73	Net profits (millions)
American Petrofina	+105	$4.7
Signal	+98	16.2
Occidental	+33	8.9
Atlantic Richfield	+52	50.3
Marathon	+49.6	24.1
Shell	+49	80.2
Ohio Standard	+48.3	17.5
Total Petroleum	+45.5	3.1
Exxon	+43.1	508.0
Ashland	+41	15.9
Getty	+40.9	33.0
Sun	+40	49.0
Crown Central	+34.4	.303
Amerada Hess	+25	36.7
California Standard	+24	152.8
Pennzoil	+23.9	19.6
Phillips	+22	43.4
Indiana Standard	+21	121.1
Gulf	+18.7	165.0
Cities Service	+17.4	34.4
Texaco	+14.3	264.0
Tenneco	+14.4	53.4
Continental	+11.5	47.5
Mobil	+10.1	155.8
Skelly	+2.5	9.9
Murphy	−1.6	1.9
Apco	−47.2	.889

STATEMENT OF W. D. BAKER, PRESIDENT, HIGHLAND PETROLEUM, INC.

Mr. BAKER. Mr. Chairman, I am W. D. Baker. I am president of Highland Petroleum, Inc., and also a member of the board of directors of the National Self-Serve Gasoline Association.

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My experience goes back to 1941 when I came out of high school, working for a Phillips 66 distributor. I have been in gasoline most of my adult life.

In 1964 I became engaged in marketing through Self-Serve. My pumps were installed at a convenience food store. It was the second of this type in the State of Colorado or in the Nation as far as I know.

One thing I want to point out that makes me wonder considerably about really what is happening, is the fact that quite a large number of the majors are going to secondary brands.

These are locations that in some cases they have built from the ground up and quite expensive on large pieces of real estate. Others are stations that are having their major brand shields removed and putting up with signs such as some of these you may see around the country, Swan, Blue Goose, Buy Right, Way Lo, Alert, and other names of that nature.

In some areas as a direct result of the refiner's retailing sales increasing, the nonrefiner supply is being reduced.

Senator McINTYRE. Do you mean that the majors having, say, a major brand now has a secondary brand called Swan and it is supplied from one of the majors?

Mr. BAKER. Yes.

A great many of the majors are now practicing this throughout the United States.

Senator McINTYRE. Would Swan be a self-serve station?

Mr. BAKER. Might be. Certainly, I know with Phillips Petroleum Co. this is practiced widely throughout the United States and especially in the western part of the country.

Primarily, self serve in the western part of the United States—they market now generally at prices below the nonrefiner, primarily, because we cannot get supply to keep our stations open.

Senator McINTYRE. Who owns Alert?

Mr. BAKER. Exxon.

Senator McINTYRE. That is the largest?

Mr. BAKER. I believe so—in the world.

I want to point out what our marketing supply is and has been. We market in seven different States. We have gone to a 56 percent reduction in Oklahoma, 75 percent in Colorado, to a 100 percent cutoff in Idaho, 48 percent in South Dakota, 50 percent in Nebraska and 75 percent in Ohio, and Kentucky. I got word the other night that we probably do not have any in Ohio and Kentucky now. In some cases, the independent refiner that has possibly one or two refineries—in some cases more—is also practicing the acquisition of a great number of stations at one time, and I feel at the expense of the nonrefiner, and I am speaking particularly of a refiner in the Rocky Mountain area that recently made notice through the news media that they purchased 45 stations very recently in Arizona.

That refiner which I have been buying from for nearly 2 years has now reduced my supply to less than 25 percent of what I was buying from him. I am wondering where, really, did some of my supply go to.

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The prices have escalated astronomically. In some cases our pricing in Oklahoma has gone up 51 percent. In Colorado, it went up 8 percent; in Idaho, 19 percent; South Dakota, 48 percent.

I think there are two things in addition to what some of these people have suggested as solutions, such as allocation. Allocation in my opinion is the only way that the independent nonrefiner that is very competitive in the industry is going to be saved—by an immediate allocation program. Otherwise he is going to be down the drain as well as most of our stations and I have been a lifetime trying to create a company that now has 40 stations.

We are all in the same boat. We are going to be flushed down the drain with no attention from the Government to help our plight.

Senator McINTYRE. You seem to intimate that some part of this shortage is—what I call—contrived. Do you think it is so?

Mr. BAKER. I think it is quite likely, to put it mildly.

Senator McINTYRE. Probably?

Mr. BAKER. Yes, sir.

When a refiner can buy 45 stations, cutting back his supply to people such as me and many other nonrefiners, in the immediate area of his refinery—buy stations at 45—at a time—I think this bears investigation.

Senator McINTYRE. Do you want to name names here so we will know what you are talking about?

Who bought 45 oil stations?

Mr. BAKER. Husky Oil Co.

They are an independent refiner with four refineries in the western part of the country and one in Canada.

We have been buying for over close to 2 years from another sizable independent but recently, in the last 2 or 3 years, it was purchased by a national meat packing company.

This refiner—one of their own representatives told me that they were aggressively pursuing purchasing real estate and erecting brand new stations—very expensive.

I said "Well, it is nice to know. I hope my product makes you a profit." Because that is exactly what they are doing. They reduced me to one-third of what we had been buying from them for a long period of time.

Senator McINTYRE. None of you fellows who were in this business ever felt you were out on a limb to begin with?

Mr. BAKER. No.

Senator McINTYRE. One of the first things I learned from this thing—I do not understand how to this day—is how these terminal operators can compete with the majors when it is the majors that supply them with the product that they compete with.

Mr. POTVIN. There have been some changes. Texaco in Chicago, they are cutting off a lot of our people. They are buying up very quietly 40 stations that the Sun Oil Co. is abandoning since they have pulled out of that territory.

You see, it was indeed a buyer's market a few years ago as witnessed by the fact that they sold gas in such a startling number of ways, ranging from the branded all the way down through sheer access to a broker.

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Today it is the seller's market. That is the message. They can sell every gallon they make a couple of times. So, what they are doing, they are putting it where the computer tells them they make the most money. There have been at least five companies to move out of the State of Illinois. You cannot criticize Company No. 1. It is a free enterprise system. When you get down to that bottom line, you have got a half billion gallons withdrawn. At this point, sir, there is a public interest. Certainly, the legislation you have just passed, that has some countervailing force. There must be something done to see that the Upper Midwest, the Rocky Mountain pocket does get the fuel that they must have for their vital needs.

Senator McINTYRE. Mr. Baker, are you all through?

Mr. BAKER. Just two points. As far as remedies to give consideration to, along with the allocating program that we would like to see put into effect. The nonrefining marketer only should be allowed to purchase the imported refined motor fuels. At this time they are not of much value as far as the import tickets are concerned, but possibly conditions may change.

Secondly, a greater portion of the crude from the Government leases be allocated to the independent refiners as some of these other people have suggested and that is all I have to tell you.

[The complete statement of Mr. Baker follows:]

STATEMENT OF W. D. BAKER, PRESIDENT, HIGHLAND PETROLEUM, INC.

Mr. Chairman, members of the committee, I am W. D. Baker, President of Highland Petroleum, Inc. and a member of the Board of Directors of the National Self-Service Gasoline Association.

I sincerely appreciate this opportunity to appear before this committee.

My experience in the marketing of gasoline dates back to 1941 when I worked for a Phillips 66 Distributor in S. W. Missouri.

In 1964, after being out of the gasoline business for a few years, I became a private brand marketer near Denver, Colorado. I made arrangements with a small grocery company to let me install three pumps in front of their store. The pumps were controlled by a home built control system that gave a read-out of each gasoline sale to the exact cent. This was the second such installation in the Denver Area or in the United States as far as I know. The name we tagged on this installation was U Fill'em. The industry is now seeing this type of an installation or variations of such throughout most of the United States.

In the last two or three years we have seen many refiners becoming engaged in this type of marketing, using the remote control idea with one cashier to operate the station.

Many major oil companies are taking down their major brand shields and putting up secondary brands and removing their dealers or distributors from stations. After this, they are able to go to direct selling with a salaried cashier and sell at the same price as the non-refiner's station. This places the refiner at a much greater economic advantage than the little private brander. Some of the trade names the major oil companies are coming up with are: Swan, Blue Goose, Buy Rite, Way Lo, Red Dot, Alert etc.

I want to point out that our cut back in available gasoline supply has been the following: 56% in Oklahoma; 75% in Colorado; 100% in Idaho; 47.9% in South Dakota; 50% in Nebraska; 75% in Ohio and Kentucky.

While the cost has gone up: 51% in Oklahoma; 7.7% in Colorado; 19% in Idaho; 47.9% in South Dakota; 30% in Nebraska; 8.8% in Ohio and Kentucky.

It is interesting to note that while Husky Oil Company with four refineries in the United States has drastically cut back gasoline that they had been making available to non-refining marketers (75% in our case) while just recently they announced to the news media that they purchased 45 stations from a non-refiner in Arizona.

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Gentlemen I would like to say that generally speaking non-refining marketers do not wish more government intervention, but it is very evident that there is no other choice if the non-refiner is to continue to be a competitor in the motor fuel market place.

I want to point out that I have personally offered crude oil that we have available to several refiners that are not running at full capacity in hopes of securing a processing agreement in which in turn would allow them to sell us some portion of the refined product secured from this product. We have been advised from two different independent refiners that they would be afraid of retaliation from major refiners that would be very detrimental to their crude buying program and gasoline exchange agreements with such major refiners.

Gentlemen I want to offer the following as possible solutions to the problem that non-refining marketers face today:

1. The non-refining marketer only be allowed to purchase imported refined motor fuels.
2. A greater portion of crude from government leases be allocated to independant refiners.
3. An immediate allocation program be instituted to provide the non-refiners per year with an amount equal to 12% of the motor fuel the major refiners manufactured in 1972.

Gentlemen I thank you for the time alloted to my statement.

HIGHLAND PETROLEUM, INC.,
Englewood, Colo.

HON. THOMAS MCINTYRE,
Senate Banking Committee,
Senate Office Building,
Washington, D.C.

DEAR SENATOR MCINTYRE, The following is a brief review showing, by geographical region and supplier, the price increases and product cutbacks experienced by Highland Petroleum Inc. in the recent months.

Although the figures shown here affect only one company, this trend is by *no* means limited to the company, geographical areas or suppliers shown, but reflect what is happening nation wide to the independent marketer. Note: Many independent marketers have suffered higher price increases and cutbacks than shown here.

If action is not taken *now* on allocating refined products to the private branded *non-refiners*, most private branders will suffer bankruptcy and the consumer will suffer greatly increased prices with the loss of the competitive private branders.

Sincerely,

DOUG BAKER, *President.*

SOUTH DAKOTA SUPPLIER, OKC

Price increase	*Percent*	*Cutback by refiner in available gasoline (percent)*
4th quarter, 1972:		
Regular	9.1	April 1, 1973, no product available.
Premium	9.7	
1st quarter, 1973:		
Regular	36.2	
Premium	34.8	
Total increase:		
Regular	48.6	
Premium	47.9	

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MT. HOME, IDAHO SUPPLIER, TRIMBLE OIL

Price increase	*Percent*	*Cutback by refiner in available gasoline (percent)*
1972:		May 4, 1973, no product available.
Regular	7.5	
Premium	6.4	
1st quarter, 1973:		
Regular	13.1	
Premium	11.4	
Total increase:		
Regular	21.6	
Premium	18.4	

CINCINNATI AREA SUPPLIER, TRIANGLE REFINERS

Price increase	*Percent*	*Cutback by refiner in available gasoline*	*Percent*
1972:		January 1973	19.3
Regular	2.0	April 1973	50.0
Premium	---		
1st quarter, 1973:		Total cut from December 1972 to April 1973	59.9
Regular	5.8		
Premium	6.8		
Total increase:			
Regular	8.8		
Premium	6.8		

HUSKY OIL CO.,
Denver, Colo., April 23, 1973.

HIGHLAND PETROLEUM, INC.
3925 S. Kalamath Street
Englewood, Colo.

Gentlemen: Our forecasts for an indefinite period in the future indicate a steady deterioration of our available supplies of gasoline. We are, therefore, required to reduce deliveries to your account by 50% of budget projection for the month of May, 1973.

Based on this formula, the maximum quantity of gasoline that we shall be able to make available to you for the month of May, 1973, by origin point, is as follows: terminal, Denver. Gallons, 17,500.

Your cooperation in observing this limitation is requested. Any failure to abide by these restrictions may result in cutting off all supplies to your account.

Very truly yours,

JOHN A. MERCER,
Manager, Private Brand Sales.

CINCINNATI AREA SUPPLIER, CHAMPLAIN PETROLEUM CO.

Price increase	*Percent*	*Cutback by refiner in available gasoline*	*Percent*
October 1972 to March 1973:		January 1973	20.0
Regular	8.0	May 1, 1973, no product available.	
Premium	8.0		

DENVER AREA SUPPLIER, HUSKY OIL

Price increase	*Percent*	*Cutback by refiner in available gasoline*	*Percent*
1972:		March 1973	48.5
Regular	3.0	April 1973	12.5
Premium	3.6	May 1973	37.5
1st quarter, 1973:			
Regular	4.0	Total cut from February 1973 to April 1973	75.8
Premium	5.0		
Total increase:			
Regular	7.7		
Premium	9.1		

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OKLAHOMA SUPPLIER, OKC

Price increase	*Percent*
4th quarter, 1972:	
Regular	8.7
Premium	9.4
1st quarter, 1973:	
Regular	40.0
Premium	37.9
Total increase:	
Regular	52.2
Premium	50.9

Cutback by refiner in available gasoline	*Percent*
January 1972	54.7

NAMPA, IDAHO, SUPPLIER, TRIMBLE OIL

Price increase	*Percent*
1972:	
Regular	4.0
Premium	3.4
1st quarter, 1973:	
Regular	12.4
Premium	6.6
Total increase:	
Regular	16.9
Premium	14.5

Cutback by refiner in available gasoline (percent)
May 4, 1973, no product available.

Mr. SOSTEK. There are two things than can be done: No. 1, the allocation amendment which the chairman got into the Economic Stabilization Act should be mandatory. That is No. 1.

No. 2, the Kennedy-Hart bill pertaining to equitable allocation should be passed as quickly as possible.

That would step things up pretty quickly.

Senator MCINTYRE. I have got to close this thing down.

Mr. PARRISH. I submitted with my written statement a copy of one of the trade papers which was published the first quarter of 1973, "Profits of the Major Refining Companies," and, when I see it—I am not sure I brought a round trip plane ticket—it is a little tough when you pick out, for example, Exxon, the granddaddy of them all, up 41.3 percent. It is a difficult thing to comprehend.

Senator MCINTYRE. Once in a while, I look at the financial sheet, I notice that Mobil or something had a bad year—$540 million were their profits. You talk to the Mobil stockholders, they like that. I would like to thank you gentlemen for coming here and telling what is going on as you see it. Hopefully these hearings will culminate in at least getting the impact of the seriousness of this situation. In April, getting it home so there will be some saving action, I hope, we will have to listen to what the majors say. They will be in tomorrow. Then hopefully, someone has intimated here—I think it was you—that all of a sudden, hopefully, the Government people are talking a little differently. It always used to bother me when I asked to see the man in charge of oil, that he was accompanied by two fellows who came out of Louisiana and Texas who grew up in the oil field. I was also hoping it was somebody from New England.

The other day it was a man from New England and he was no more help than the one out of Louisiana or Texas.

We will recess until 10 a.m. tomorrow.

[At 12:40 p.m. the committee recessed until 10 a.m., Wednesday, May 9, 1973.]

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PETROLEUM PRODUCT SHORTAGES

WEDNESDAY, MAY 9, 1973

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS,
Washington, D.C.

The committee was convened at 10 a.m., in room 5302, New Senate Office Building, Senator Thomas J. McIntyre, presiding.

Present: Senators McIntyre, Johnston, Tower, Bennett, and Brooke.

Senator MCINTYRE. The committee will come to order.

Today we enter into our third day of hearings on the subject of the impact of petroleum product shortages on the national economy. Unless there is some objection, gentlemen, I would like very much to call as a panel the following witnesses: Mr. L. G. Rawl, senior vice president, Exxon Company, U.S.A., Mr. Robert V. Sellers the chairman of the board of Cities Service Co. (Citgo), and Mr. Annon M. Card, senior vice president of Texaco.

If all of you would come to the witness table at the same time, this will help us a great deal on our overall time element.

Now, we will allow each of you to testify in any manner that you wish. We will call on Mr. Rawl, Mr. Sellers, and Mr. Card.

STATEMENT OF L. G. RAWL, SENIOR VICE PRESIDENT, EXXON CO., U.S.A.; ROBERT V. SELLERS, CHAIRMAN OF THE BOARD, CITIES SERVICE CO. (CITGO); ANNON M. CARD, SENIOR VICE PRESIDENT, TEXACO; AND JAMES PIPKIN, EXECUTIVE VICE PRESIDENT, TEXACO

Mr. PIPKIN. Mr. Chairman, may I address my remarks to you. My name is Pipkin of Texaco. Mr. Card is here and is prepared to testify. I want it understood that he gives his testimony in relation to Texaco and please do not expect him to comment on answers given by other companies about matters involving their companies. It is certainly not an industry presentation—anything representing the industry that Mr. Card will be testifying to.

Senator MCINTYRE. We understand. It is perfectly acceptable to us. I want to welcome you all here and tell you that we do appreciate your coming here. We realize it is a very difficult time for you, with conditions changing day by day. We do need to get on the record as you see this picture. So I am going to ask first Mr. Rawl—we have your statement. It will be put in the record in its entirety. You can read it in its entirety if you wish, or you can paraphrase a paragraph or so. We would appreciate that.

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I want you to have full opportunity to present your testimony in your best possible light. Go right ahead, Mr. Rawl.

Mr. RAWL. Thank you, Mr. Chairman. Obviously, I must be in the same position as the Texaco witness. I am sure you understand, sir.

Senator McINTYRE. Yes, sir

Mr. RAWL. I am L. G. Rawl, senior vice president of Exxon Co., U.S.A. We are all aware that the energy situation today in the United States is very serious. Therefore, I will not dwell on emphasizing the importance of the subject. Rather I intend to respond to the six questions which you addressed in announcing these hearings. I have taken the liberty of placing some of the questions in a different sequence to facilitate presentation.

First, however, I would like to discuss some background. To understand the supply situation for gasoline or any petroleum product it is necessary to consider the overall U.S. energy situation and its impact on all petroleum products.

Total petroleum product demand in the region east of the Rocky Mountains, where Exxon U.S.A.'s principal operations exist, has grown for the last 18 months at an annualized rate of about 7 percent, which equates to an increase of nearly 1 million barrels per day each year. This compares to a growth rate of about 5 percent each year from 1965 through 1971. The accelerated increase is the result of a number of factors, including: (1) the installation of auto emission control devices which have significantly reduced engine efficiency and thereby increased gasoline consumption; (2) an increasing shortage of natural gas; (3) air emission controls which have restricted the use of coal, and (4) delays in the startup of nuclear generating capacity. The last three factors, plus restrictions on the use of regular sulfur fuel oil—in other words, high sulfur fuel oil—have caused a substantial increase in demand for low sulfur fuel oil and distillate fuels by industrial and utility consumers.

Since 1969, domestic refining capacity serving the country east of the Rockies has grown at only 350 Mbbl/d each year, or less than half the rate at which product demand has been growing over the same period. But even as recently as 1971, U.S. refineries had significant spare capacity, as much 500 Mbbl/d per day.

Within the past year, however, total demand caught up with and passed total refining capacity. The result is a growing disparity between U.S. product requirements and the capacity of U.S. refineries to make product.

There are a number of reasons for the relatively slow pace of refinery growth. Uncertainties over the future structure of import controls coupled with the variable manner in which the prevailing imports program was administered tended to inhibit investment in refineries. Uncertainty about future environmental regulations made it difficult to project future product quality requirements and demands and future refinery emissions standards. As a result, some investment decisions on new facilities were deferred. Sites for new refineries became increasingly difficult to obtain. One east coast State has prohibited refinery construction by its coastal zone by law and similar legislation is pending in other States. Investment costs for

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refining facilities increased substantially because of the additional equipment required to make products meeting extremely stringent environmental standards and to control refinery emissions to comply with established environmental regulations.

Today this growing shortfall in refining capacity is aggravated by the very tight situation in crude oil supply. For over a year, U.S. crude production has been operating at full capacity and domestic production rates have begun to decline.

I had a paragraph in here with regard to North Slope and California crude and obviously these crudes are seriously needed. Therefore you are familiar with the problems we have in getting them to the markets. Because of these developments there is today a significant and growing gap btween domestic crude oil production and the volume of crude required to fill U.S. refineries. This gap can be closed only by importing foreign crude.

Ten years ago the total free world had 30 percent spare crude oil producing capacity. Today world demand for oil is more than twice what it was in the early 1960's and spare producing capacity in the free world has dropped to about 2 percent, or roughly 1 Mbbl/d. As a result, only limited volumes of foreign crude are available.

Concurrent with the disappearance of worldwide spare producing capacity, foreign crude prices have risen rapidly and currently foreign crude delivered in this country is higher cost than domestic crude. In all likelihood, foreign crude will continue to be at least as expensive in the United States as domestic crude. And most outlooks indicate that worldwide crude supplies will remain very tight for the foreseeable future. Further complicating this prospect is the fact that the limited spare foreign supplies available are predominantly relatively high sulfur crudes.

The next paragraph discusses the problems as to running high-sulfur crude in the domestic refineries. I will proceed to discuss question No. 1.

The causes behind the gasoline shortage—committee question 1.

As I have explained, the Nation is in a situation where domestic refining capacity is insufficient to meet product demand. This situation will be further aggravated in the months ahead if the refining capacity that does exist is not fully used.

To maximize the use of available refining capacity, imports of low-sulfur crude are needed to compensate then for the shortfall crude U.S. production. But the great part of the crude oil that is available outside the United States has a high sulfur content.

Further complicating the situation on the supply side is the fact that gasoline inventories east of the Rockies are lower than they were a year ago. This is the case in spite of the fact that production of gasoline, as well as distillates was higher this past winter than it was in the winter of 1971–72.

As this inventory situation suggests, demand for motor gasoline is growing rapidly. In the first quarter of this year, gasoline consumption east of the Rockies was about 6 percent higher than it was in the same period a year ago. Two factors that are clearly contributing to this increase in demand are the general upturn in the

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economy and the relatively high consumption of new cars due to the emissions control devices that I mentioned earlier.

Furthermore, as I understand it now, new car sales were up in the first quarter 20 percent or so. Under these circumstances it is clear that substantial imports of finished gasoline and heating oil will be required to meet U.S. demands. This year, at least, there is some capacity in overseas refineries to manufacture products for shipment to the United States.

But it needs to be recognized that the supplies which appear to be available from overseas refineries are less reliable than domestic supplies. The logistical system required to import foreign products and crudes is long in terms of distance and complex in terms of coordination.

The availability of supplies is subject to unexpected change. This can happen as a result not only of unforeseen increases in foreign demand but also unilateral actions on the part of foreign governments.

In addition, petroleum products made abroad do not always meet U.S. environmental specifications; for example, most offshore heating oil is higher in sulfur content than U.S. heating oil.

Furthermore the octane of available foreign gasoline on the average is lower than the required for satisfactory performance in U.S. automobiles.

For example, foreign heating oil probably averages out about a half percent sulfur with the requirement in the Northeast being a maximum of two-tenths percent.

Foreign refineries are designed to produce relatively large fields of distillates and fuel oil as compared to gasoline.

I think I can skip the next paragraph. It talks about the balance barrel, the problem when you secure supplies on a foreign circuit, you also have to make arrangements to dispose of the rest of the barrel which is a significant problem to the system.

Finally, with phase III price controls in effect in the United States the fact that the prices of foreign products have increased and now are generally higher than U.S. prices will be a complicating factor.

Now, I would like to turn to committee question No. 5 which is closely related to the first.

And it concerns the impact of gasoline shortages on other petroleum products. There are two significant variables that make it extremely difficult to assess how the total production capacity of domestic refineries will be distributed among individual products.

The first of these I have already discussed, this is the overall availability of foreign crude and products.

The second variable is the ability of the U.S. refiner to change the amount of any particular product made within the total slate. For example, gasoline yields generally can be varied up to 5 percent of the total crude processed.

As more gasoline is made, usually less distillates are made and vice versa. This flexibility varies from one refinery to another and from one company to another.

In theory, this manufacturing flexibility is employed, in conjunction with the management of inventories, to meet current demands

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while at the same time preparing to satisfy the requirements of coming months.

But in practice, a refiner may find himself obliged to use up so much of his flexibility in handling an immediate problem of unexpected high demand in one product that he adversely affects his ability to meet requirements for another product some months later.

These variables will, in good measure, determine the impact that gasoline shortages will have on other products this year and on home heating oil supplies next winter.

Exxon USA's domestic refining operations represent only 8 percent of the U.S. oil industry. I cannot predict with any real confidence what other companies will be able to do about imports or how conditions will dictate they use their refining flexibility. As a result, there is really no way I can assess with much accuracy the impact of the gasoline situation on other products on an industrywide basis. I can, however, outline my own company's outlook.

Our current assessments indicate that Exxon USA's supplies of gasoline, heating oil, and other distillates this year will enable our company to provide volumes of these products to each group of customers equal to 1972 sales plus some allowance for growth in 1973.

But it should be understood that this supply outlook for Exxon USA depends entirely on the company continuing to be able to operate its refining facilities at as close to capacity as possible—which it is currently doing—and having here the access to imports which it currently projects.

Obviously, unanticipated shutdowns of major refinery units, interruptions or reductions in availability of either domestic or foreign crude, problems in access to overseas products, or other unforeseen operating difficulties could adversely affect our supply capability.

The generally tight supply situation in the U.S. petroleum industry is imposing abnormal demands on Exxon USA.

For example, some customers are requesting additional supplies to offset supplies unavailable to them from other traditional sources. In addition, many consumers are seeking replacement fuels for curtailed natural gas. Under these circumstances of overall tight supply, we believe our primary obligation is to serve our existing customers. We will distribute the specific supplies we have available to each group of customers in basically the same proportion as we have in the recent past. Customers in each group will be treated fairly. As we now see our situation, it is unlikely that we will have the capability to supply potential new customers.

I would like now to address committee questions 4 and 6 which are related. So I will discuss them together.

What steps can be taken to avoid such shortages in the future and the effect of the recently announced phaseout of the quota system.

The President's energy message provides an encouraging sign that the need for governmental action has been recognized. Changes that have been made in the imports program should do much to encourage the construction of new refinery capacity in the United States. Of course, environmental considerations will have an effect on the implementation of plans for additional capacity.

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These are not only emission types of regulations, but certainly the siting problem is still a very serious one.

The new program also permits access to the product imports needed to supplement domestic supplies but, as I have suggested earlier, this, in itself, probably will not be sufficient so long as foreign products fail to meet the U.S. environmental and performance standards.

Environmental actions during the past 4 or 5 years have had a great impact on the Nation's system of energy supply. Unfortunately, this cause and effect has gone largely unrecognized.

Until recently, the country's energy system has managed to absorb the additional increased demand that has resulted, but it can do so no longer. Today all the flexibility we have enjoyed in past years is gone from our fuels supply system and if the United States continues for the next 4 years as it has for the past 4, the effect could be extremely serious. In its concern for the condition of the environment, many in the Nation have overlooked the ways in which environmental actions have affected energy supply; now, the coin must be turned and more attention must be given to providing a better balance between the two.

I should emphasize that my company clearly recognizes the need for the Nation to set goals for environmental improvement. As individuals and as a company we are supportive of the view that protection of the natural environment is desirable. We endeavor to conduct all our operations accordingly. We have made and will continue to make the investments required to meet environmental standards. We have modified our operating procedures and practices to that end and will continue to do so.

But the point I wish to make is that it seems to us that the time has come when the country needs to take a second look at its timetable for environmental improvement. We do not suggest that environmental goals be abandoned.

What we do suggest is that the energy supply situation is sufficiently severe that consideration should be given to taking more time to reach ultimate air quality goals. This would not mean returning to the air-emission levels experienced in the late sixties; it would simply mean that the Nation would not go quite so far quite so fast.

We would suggest that as the Nation reexamines the need for a more balanced look at enengy and the environment, certain specific areas should be examined to see if temporary relaxations are not in fact warranted.

Exxon U.S.A.'s recommendations concerning long term solutions to the energy problems of the Nation were reviewed recently by Randall Meyer, president of Exxon Co., U.S.A. in testimony before the Senate Committee on the Interior and Insular Affairs. I have filed a copy of this testimony for the record.

Now, I would like to turn to question 2 of the committee—the effect gasoline shortages will have on the Nation.

I think it is self evident that the effect of gasoline shortages will depend on their magnitude. Minor shortages, if they occur, will obviously result in inconvenience to motorists. But, it is generally

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recognized that there is significant discretionary components in motor gasoline demand.

We would expect that even some modest reduction in discretionary consumption could be sufficient to relieve minor shortages. Each motorist can probably afford to drive fewer miles without materially impairing the quality of his life.

By the same token, each of us can make a contribution to the reduction in gasoline demand by using his automobile more efficiently when we do drive. A number of oil companies already are recommending conservation of gasoline to the motoring public. In this same vein, we fully support the emphasis given energy conservation and wise use of energy by the President in his recent energy message to the Congress.

How great the magnitude of gasoline shortages actually will be will depend on at least four factors.

First, the actual level of U.S. consumers' demand for gasoline in the months ahead. In good measure, this will depend on how the driving public of the United States perceives the situation and, as individuals, decide to adjust their driving habits.

Second, the ways in which the many individual oil companies manage their operations.

Third, actions by the Federal Government on price controls and by Federal, State and local governments concerning environmental standards.

Fourth, potential actions by foreign governments and the actual supply availability situation in the foreign countries to which the United States must turn for increasing volumes of crude oil and petroleum products.

But, when we in Exxon U.S.A. take all these considerations into account, we conclude that such shortages as occur this summer probably will be scattered, temporary and relatively minor. But, individuals and businesses which are directly affected may well feel that they are encountering serious problems.

If major shortages occur, major actions to cope with the situation will be required. Against this possibility, contingency plans should be developed by Government. But such plans need to be carefully thought out and implemented only in the event of major gasoline supply problems. The effect on the economy of the dislocations that could result from an ill-considered government allocation program could well be more severe than the effect of the shortages themselves.

To complete my testimony, I would like to comment on committee question No. 3, which relates to the impact of shortages and competition.

As I said earlier, Exxon U.S.A. has publicly stated its commitment to provide the motor gasoline, heating oil and other distillate fuels we have available to each group of customer in basically the same proportions as we have in the recent past.

As I indicated, we believe our first obligation is to serve our existing customers in whatever group they fall. In the broad context of the question the committee had asked, we believe this is a responsible approach.

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The petroleum industry is extremely competitive. There are many participants, both within the U.S. industry and, now within the foreign petroleum industry, who are involved in supplying the United States with petroleum products. Few other major industries in the world have as diverse or as large a number of competitors.

There are great numbers of highly active and highly competitive companies in each phase of the petroleum industry—producing, refining, transportation and marketing. One important factor which will tend to ensure that competition will remain healthy within the U.S. oil industry is that many competitors will take the view that the period of tight supply will not continue indefinitely. With this in mind, they will recognize that the value of their business in the long run will depend on retaining the goodwill of their customers. We would expect they will conduct their business accordingly.

Mr. Chairman, thank you for this opportunity to present these views.

Senator McINTYRE. Thank you, Mr. Rawl.

We will go right ahead to Mr. Sellers.

[The complete statement of Mr. Rawl follows:]

STATEMENT OF L. G. RAWL, SENIOR VICE PRESIDENT, EXXON CO., U.S.A. (A DIVISION OF EXXON CORP.)

INTRODUCTION

Mr. Chairman, I am L. G. Rawl, Senior Vice President of Exxon Company, U.S.A. We are all aware that the energy situation today in the United States is very serious. Therefore, I will not dwell on emphasizing the importance of the subject. Rather I intend to respond to the six questions which you addressed in announcing these hearings. I have taken the liberty of placing some of the questions in a different sequence to facilitate presentation.

First, however, I would like to discuss some background. To understand the supply situation for gasoline or any petroleum product it is necessary to consider the overall U.S. energy situation and its impact on all petroleum products.

Total petroleum product demand in the region east of the Rocky Mountains, where Exxon USA's principal operations exist, has grown for the last 18 months at an annualized rate of about 7%, which equates to an increase of nearly a million barrels per day each year. This compares to a growth rate of about 5% each year from 1965 through 1971. The accelerated increase is the result of a number of factors, including (1) the installation of auto emission control devices which have significantly reduced engine efficiency and thereby increased gasoline consumption, (2) an increasing shortage of natural gas, (3) air emission controls which have restricted the use of coal, and (4) delays in the start-up of nuclear generating capacity. The last three factors, plus restrictions on the use of regular sulfur fuel oil, have caused a substantial increase in demand for low sulfur fuel oil and distillate fuels by industrial and utility consumers.

Since 1969, domestic refining capacity serving the country east of the Rockies has grown at only 350 MB/D each year, or less than half the rate at which product demand has been growing over the same period. But even as recently as 1971, U.S. refineries had significant spare capacity—as much as 500 MB/D per day. Within the past year, however, total demand caught up with and passed total refining capacity. The result is a growing disparity between U.S. product requirements and the capacity of U.S. refineries to make product.

There are a number of reasons for the relatively slow pace of refinery growth. Uncertainties over the future structure of import controls coupled with the variable manner in which the prevailing imports program was administered tended to inhibit investment in refineries. Uncertainty about future environmental regulations made it difficult to project future product quality requirements and future refinery emissions standards. As a result,

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some investment decisions on new facilities were deferred. Sites for new refineries became increasingly difficult to obtain. One East Coast state has prohibited refinery construction in its coastal zone by law, and similar legislation is pending in other states. Investment costs for refining facilities increased substantially because of the additional equipment required to make products meeting extremely stringent environmental standards and to control refinery emissions to comply with established environmental regulations.

Today this growing shortfall in refining capacity is aggravated by the very tight situation in crude oil supply. For over a year, U.S. crude production has been operating at full capacity and domestic production rates have begun to decline. As this is taking place, one of the largest oil fields on the North American continent is locked up on Alaska's North Slope waiting for the Congress and the courts to clear the way for construction of the Trans-Alaskan Pipeline. What is at stake, of course, is at least 2 MMB/D of crude oil supply. Oil development has also been constrained in offshore California where major discoveries remain undeveloped in the Santa Barbara Channel.

Because of these developments there is today a significant and growing gap between domestic crude oil production and the volume of crude required to fill U.S. refineries. This gap can be closed only by importing foreign crude.

Ten years ago the free world had 30% spare crude oil producing capacity. Today world demand for oil is more than twice what it was in the early 1960's and spare producing capacity in the free world has dropped to about 2%. As a result, only limited volumes of foreign crude are available.

Concurrent with the disappearance of worldwide spare producing capacity, in this country is higher cost than domestic crude. In all likelihood, foreign crude prices have risen rapidly and currently foreign crude delivered crude will continue to be at least as expensive in the U.S. as domestic crude. And most outlooks indicate that worldwide crude supplies will remain very tight for the foreseeable future. Further complicating this prospect is the fact that the limited spare foreign supplies available are predominantly relatively high sulfur crudes.

Many people assume that all crude oil is the same and that refineries can produce any crude oil. But the fact is that crude oil characteristics vary widely and each refinery is designed to process specific types of crude within a certain range. A large portion of U.S. refining capacity was built to use domestic crudes, which are mainly low sulfur. Therefore, these refineries have only limited capacity to process high sulfur crudes. The metallurgy of much of their equipment is inadequate to withstand the corrosion caused by high sulfur crudes. In addition, a low sulfur refinery cannot produce products from high sulfur crude that meet U.S. environmental requirements. Finally, in many cases refineries are limited in their ability to process high sulfur crude because they themselves would generate emissions in excess of air quality standards.

With this background, I would like to turn to the Committee's questions.

The Causes Behind the Gasoline Shortage (Committee Question 1)

As I have explained, the nation is in a situation where domestic refining capacity is insufficient to meet product demand. This situation will be further aggravated in the months ahead if the refining capacity that does exist is not fully used. To maximize the use of available refinery capacity, imports of low sulfur crude are needed to compensate for the shortfall in U.S. crude production. But the great part of the crude oil that is available outside the U.S. has a high sulfur content.

Further complicating the situation on the supply side is the fact that gasoline inventories east of the Rockies are lower than they were a year ago. This is the case in spite of the fact that production of gasoline (37 MMB)—as well as distillates (53 MMB)—was higher this past winter than it was in the winter of 1971-72.

As this inventory situation suggests, demand for motor gasoline is growing rapidly. In the first quarter of this year, gasoline consumption east of the Rockies was about 6% higher than it was in the same period a year ago. Two factors that are clearly contributing to this increase in demand are the general upturn in the economy and the relatively high consumption of new cars due to the emissions control devices that I mentioned earlier.

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Under these circumstances, it is clear that substantial imports of finished gasoline and heating oil will be required to meet U.S. demands. This year, at least, there is some capacity in overseas refineries to manufacture products for shipment to the U.S.

But it needs to be recognized that the supplies which appear to be available from overseas refineries are less reliable than domestic supplies. The logistical system required to import foreign products—and crudes—is long in terms of distance and complex in terms of coordination. The availability of supplies is subject to unexpected change. This can happen as a result not only of unforeseen increases in foreign demand but also unilateral actions on the part of foreign governments.

In addition, petroleum products made abroad do not always meet U.S. environmental specifications; for example, most offshore heating oil is higher in sulfur content than U.S. heating oil. Furthermore, the octane of available foreign gasoline on the average is lower than that required for satisfactory performance in U.S. automobiles.

Foreign refineries are designed to produce relatively large yields of distillates and fuel oil as compared to gasoline. (Western European refinery gasoline yield is 13.5% of crude run versus U.S. gasoline demand of 40.6% of petroleum products).[1] This situation poses certain problems in itself.

Before a foreign refiner will process additional crude oil to manufacture gasoline for shipment to the U.S., he will require some assurance that he also will have a market for the higher sulfur distillates and high sulfur fuel oil that he must make along with that gasoline. Since overseas requirements for these products are satisfied out of the base level of overseas refinery production, the U.S. will need to provide an outlet for them. But environmental considerations may make it difficult if not impossible to market these two products in this country and, in this way, limit the importation of foreign gasoline.

Finally, with Phase III price controls in effect in the U.S., the fact that the prices of foreign products have increased and now are generally higher than U.S. prices will be a complicating factor.

Now I would like to turn to Committee Question 5 which is closely related to the first.

The Impact of Gasoline Shortages on Other Petroleum Products (Committee Question 5)

There are two significant variables that make it extremely difficult to assess how the total production capacity of domestic refineries will be distributed among individual products.

The first of these I have already discussed—this is the overall availability of foreign crude and products.

The second variable is the ability of the U.S. refiner to change the amount of any particular product made within the total product slate. For example, gasoline yields generally can be varied up to 5% of the total crude processed. As more gasoline is made, usually less distillates are made and vice versa. The flexibility varies from one refinery to another and from one company to another. In theory, this manufacturing flexibility is employed. in conjunction with the management of inventories, to meet current demands while at the same time preparing to satisfy the requirements of coming months. But in practice a refiner may find himself obliged to use up so much of his flexibility in handling an immediate problem of unexpectedly high demand in one product that he adversely affects his ability to meet requirements for another product some months later.

These variables will in good measure determine the impact that gasoline shortages will have on other products this year and on home heating oil supplies next winter.

Exxon USA's domestic refining operations represent only 8% of the U.S. oil industry. I cannot predict with any real confidence what other companies will be able to do about imports or how conditions will dictate they use their refining flexibility. As a result, there is really no way I can assess with much accuracy the impact of the gasoline situation on other products on an industry-wide basis. I can, however, outline my own company's outlook.

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[1] See attached typical yield information.

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Our current assessments indicate that Exxon USA's supplies of gasoline, heating oil, and other distillates this year will enable our company to provide volumes of these products to each group of customers equal to 1972 sales plus some allowances for growth in 1973. But it should be understood that this supply outlook for Exxon USA depends entirely on the company continuing to be able to operate its refining facilities at as close to capacity as possible—which it is currently doing—and having the access to imports which it currently projects. Obviously, unanticipated shutdowns of major refinery units, interruptions or reductions in availability of either domestic or foreign crude, problems in access to overseas products, or other unforeseen operating difficulties could adversely affect our supply capability.

The generally tight supply situation in the U.S. petroleum industry is imposing abnormal demands on Exxon USA. For example, some customers are requesting additional supplies to offset supplies unavailable to them from other traditional sources. In addition, many consumers are seeking replacement fuels for curtailed natural gas. Under these circumstances of overall tight supply, we believe our primary obligation is to serve our existing customers. We will distribute the supplies we have available to each group of customers in basically the same proportion as we have in the recent past. Customers in each group will be treated fairly. As we now see our situation, it is unlikely that we will have the capability to supply potential new customers.

I would now like to address Committee Questions 4 and 6.

What Steps Can Be Taken to Avoid Such Shortages in the Future (Committee Question 4) and The Effect of the Recently Announced Phase Out of the Quota System (Committee Question 6)

The President's Energy Message provides an encouraging sign that the need for governmental action has been recognized. Changes that have been made in the imports program should do much to encourage the construction of new refinery capacity in the U.S. Of course, environmental considerations will have an effect on the implementation of plans for additional capacity.

The new program also permits access to the product imports needed to supplement domestic supplies, but, as I have suggested earlier, this in itself probably won't be sufficient so long as foreign products fail to meet U.S. environmental and performance standards.

Environmental actions during the past four to five years have had a great impact on the nation's system of energy supply. Unfortunately, this cause-and-effect has gone largely unrecognized. Until recently, the country's energy system has managed to absorb the additional increased demand that has resulted, but it can do so no longer. Today all the flexibility we have enjoyed in past years is gone from our fuels supply system and if the U.S. continues for the next four years as it has for the past four, the effect could be extremely serious. In its concern for the condition of the environment, many in the nation have overlooked the ways in which environmental actions have affected energy supply; now, the coin must be turned and more attention must be given to providing a better balance between the two.[2]

I should emphasize that my company clearly recognizes the need for the nation to set goals for environmental improvement. As individuals and as a company we are supportive of the view that protection of the natural environment is desirable. We endeavor to conduct all our operations accordingly. We have made and will continue to make investments required to meet environmental standards. We have modified our operating procedures and practices to that end and will continue to do so.

But the point I wish to make is that it seems to us that the time has come when the country needs to take a second look at its timetable for environmental improvement. We do not suggest that environmental goals be abandoned. What we do suggest is that the energy supply situation is sufficiently severe that consideration should be given to taking more time to reach ultimate air quality goals. This would not mean returning to the air emission levels experienced in the late 1960's; it would simply mean that the nation would not go quite so far quite so fast.

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[2] Address by M. A. Wright before the Commerce Associates Banquet, University of Southern California, May 7, 1973 (copy attached).

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We would suggest that as the nation reexamines the need for a more balanced look at energy and the environment, certain specific areas should be examined to see if temporary relaxations are not in fact warranted.

These might include:

First, refinery SO_2 emissions could temporarily be relaxed. This would enable a number of refineries to substitute some high sulfur crude for low sulfur crude. This, in turn, would free some low sulfur crude for use by refineries that have spare capacity and can process only low sulfur crude due to facility limitations. This step would help assure that industry refining capacity would be utilized to the maximum.

Second, heavy fuel oil sulfur specifications could be temporarily relaxed somewhat. This could result in the substitution of high sulfur crude for low sulfur crude which is being processed in some Caribbean refineries to make 0.3% S fuel oil. It could also permit processing some additional high sulfur crude in currently spare Carribean capacity. These two steps would facilitate the production of additional low sulfur distillate and heavy fuel oil, as well as freeing low sulfur crude, at least some of which would likely come to U.S. refineries.

Third, standards for SO_2 emissions from utility plants could be temporarily relaxed to permit the use of coal in place of fuel oil. A variation on this proposal would be to allow coal burning except in certain metropolitan areas.

Fourth, heating oil sulfur specifications could be temporarily relaxed to allow 0.5% S content European product to be used. European refining capacity is not designed to produce heating oil with sulfur content of 0.2% as is currently required in most areas of the Northeast.

Insofar as auto emissions are concerned. real progress already has been made. Regulations requiring lead-free gasoline will necessitate greater consumption of crude oil to manufacture gasoline of quality equivalent to that of the leaded product. Because of this, it is appropriate that the timing of the implementation regulations to require lead-free gasoline be reconsidered.

Exxon's USA's recommendations concerning long-term solutions to the energy problems of the nation were reviewed recently by Randall Meyer, President of Exxon Company, U.S.A., in testimony before the Senate Committee on the Interior and Insular Affairs.[3] A copy of that testimony has been filed for the record.

Now, I would like to turn to Committee Question 2.

The Effect the Gasoline Shortages Will Have on the Nation (Committee Question 2)

I think it is self evident that the effect of gasoline shortages will depend on their magnitude. Minor shortages, if they occur, will obviously result in inconvenience to motorists. But, it is generally recognized that there is a significant discretionary component in motor gasoline demand. We would expect that even some modest reduction in discretionary consumption could be sufficient to relieve minor shortages. Each motorist can probably afford to drive fewer miles without materially impairing the quality of his life. By the same token, each of us can make a contribution to reduction in gasoline demand by using his automobile more efficiently when we do drive. A number of oil companies already are recommending conservation of gasoline to the motoring public. In this same vein, we fully support the emphasis given energy conservaiton and wise use of energy by the President in his recent energy message to the Congress.

How great the magnitude of gasoline shortages actually will be will depend on at least four factors. First, the *actual* level of U.S. consumers' demand for gasoline in the months ahead. In good measure, this will depend on how the driving public of the U.S. perceives the situation and, as individuals, decide to adjust their driving habits. Second, the ways in which the many individual oil companies manage their operations. Third, actions by the federal government on price controls and by federal, state and local governments concerning environmental standards. Fourth, potential actions by

[3] Statement of Randall Meyer before the Senate Committee on Interior and Insular Affairs, February 22, 1973 (copy attached).

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PERCENT OF REFINERY YIELD THROUGHOUT THE FREE WORLD

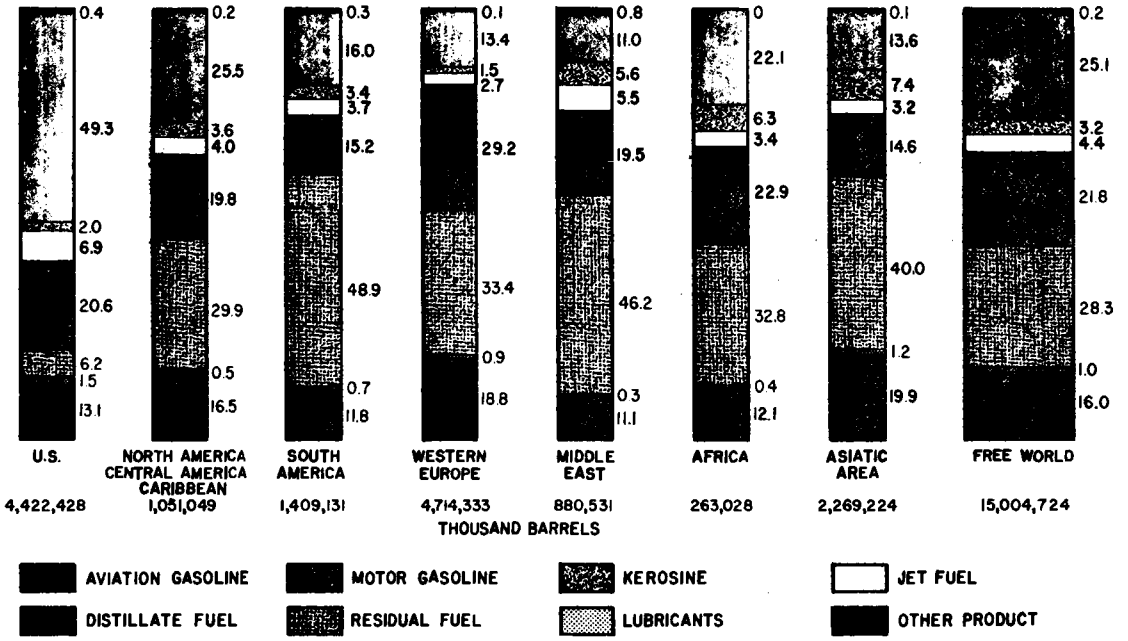

FIGURE I. Total Free World Crude Oil Input–Output, 1971

SOURCE: U. S. Department of the Interior,
Bureau of Mines

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foreign governments and the actual supply availability situation in the foreign countries to which the U.S. must turn for increasing volumes of crude oil and petroleum products.

But, when we in Exxon USA take all these considerations into account, we conclude that such shortages as occur this summer probably will be scattered, temporary and relatively minor. But, individuals and businesses which are directly affected may well feel that they are encountering serious problems.

If major shortages occur, major actions to cope with the situation could well be required. Against this possibility, contingency plans should be developed by government. But such plans need to be carefully thought out and implemented only in the event of major gasoline supply problems. The effect on the economy of the dislocations that could result from an ill-considered government allocation program could well be more severe than the effect of the shortages themselves.

To complete my testimony, I would like to comment on Committee Question 3.

The Impact of Shortages on Competition (Committee Question 3)

As I said earlier, Exxon USA has publicly stated its commitment to provide the motor gasoline, heating oil and other distillate fuels we have available to each group of customer in basically the same proportions as we have in the recent past. As I indicated, we believe our first obligation is to serve our existing customers in whatever group they fall. In the broad context of the question the Committee has asked, we believe this is a responsible approach.

The petroleum industry is extremely competitive. There are many participants, both within the U.S. industry and, now within the foreign petroleum industry, who are involved in supplying the U.S. with petroleum products. Few other major industries in the world have as diverse or as large a number of competitors. There are great numbers of highly active and highly competitive companies in each phase of the petrolum industry—producing, refining, transportation and marketing. One important factor which will tend to ensure that competition will remain healthy within the U.S. oil industry is that many competitors will take the view that the period of tight supply will not continue indefinitely. With this in mind, they will recognize that the value of their business in the long run will depend on retaining the good will of their customers. We would expect they will conduct their business accordingly.

Mr. Chairman, thank you for this opportunity to present our views.

AN ADDRESS BY M. A. WRIGHT, CHAIRMAN AND CHIEF EXECUTIVE, EXXON CO., U.S.A., AT THE COMMERCE ASSOCIATES BANQUET, UNIVERSITY OF SOUTHERN CALIFORNIA, LOS ANGELES, CALIF., MAY 7, 1973

I am grateful for the opportunity to appear before this distinguished gathering. My subject this evening is energy, and I have these objectives in mind:

First, I want to try to convince you that the energy situation in the United States is very serious—even more serious than many of you may believe.

Second, I want to impress upon you the tremendous—but largely unrecognized—impact that environmental laws and regulations have had on energy supply in the last few years.

Third, I feel you should know that if the nation is to avoid some really serious shortages of gasoline in the summertime and distillate fuels such as heating oil in the winter, there must be a reevaluation of the timetable for achieving certain environmental goals.

These are the hard, unvarnished facts as we see them in Exxon USA. They represent our view of the gravity of the situation and of the need for immediate, forthright action.

For approximately the last four years, my associates and I in Exxon USA have been predicting the possibility that the nation could encounter serious energy problems. We have done this in testimony before committees of Congress, in meetings with federal departments, and in public speeches. We cannot claim to have predicted the winter of 1972-73 as the exact date energy shortages would surface, but we did define the emerging situation as one

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that—if not corrected—would soon cause problems. Although we said that time was running out, we ourselves did not fully realize how fast the situation was changing. Nor did we, until quite recently, fully comprehend the impact the environmental movement was having on national energy supply. Suddenly, time has run out on America. The abundance of energy we have enjoyed for so long has left us.

Before discussing what we believe must be done to avoid the immediate prospect of energy shortages, particularly of gasoline and distillate fuels, permit me to take a few moments to review how and why this situation has developed.

Our basic energy problem today is that the nation's need for energy is outrunning the development of domestic energy supplies. Consumption of energy doubled between 195 and 1970, and is expected to nearly double again by 1985. For at least the next decade, energy consumption is expected to grow at about the same rate as the Gross National Product, or slightly more than four percent per year.

Several of the fuels which had been counted on to help meet rising demand are, for a variety of reasons, not available in sufficient quantity. For example, natural gas, a clean-burning fuel much in demand in view of today's strict environmental regulations, is in short supply and it is not anticipated that future supply will be able to meet potential demand. Since the mid 1950's, gas prices have been held to unrealistically low levels under regulation by the Federal Power Commission. This has had the double-edged effect of artificially stimulating demand and discouraging investments in exploration for new resources.

However, the principal factor which has led to the energy problems we face today and will face for the next few years is the tremendous impact of environmental laws and regulations on energy supply. During the past four to five years, a national desire for a cleaner natural environment has crystallized and has become a goal. And in typical American fashion, once this goal was recognized we have insisted on virtually instant results. Numerous federal, state, and municipal laws and regulations were placed on the books practically overnight. These actions have had a measurable effect and in many respects the U.S. is on the way toward the environmental quality it wants. But at the same time the environmental movement has had significant negative effects on domestic fuel supply and has in fact overstressed the ability of our energy system to respond. Let me give you some examples showing how this has happened.

Coal is not playing the role it had been expected to play in the energy market. Much of the nation's current production is high in sulfur content and therefore cannot meet the environmental standards set by the U.S. Environmental Protection Agency under the provisions of the Clean Air Act of 1970. Prior to the Clean Air Act, it had been expected that use of coal would grow at about 4.4 percent per year at least through 1973. Instead, coal consumption has grown at only 1.3 percent per year during this period. Since demand for energy was not reduced, some other fuel had to do the job that coal had been expected to do. The result has been a large and unexpected increase in demand for petroleum.

Nuclear power has also suffered from environmental restrictions. Persistent delays have been experienced in finding suitable sites for nuclear plants and in obtaining the numerous permits needed for construction and operation. One public utility company reports that not one construction or operating permit was issued in the U.S. between early 1971 and mid-1972. The Federal Power Commission has pointed out that of 56 nuclear plants scheduled to begin operation in the period from 1972 to 1975, 50 are behind schedule. As President Nixon noted in his recent energy message to Congress: "It is discouraging to know that nuclear facilities capable of generating 27,000 megawatts of electric power which were expected to be operational by 1972 were not completed. To replace that generating capacity we would have to use the equivalent of one-third of the natural gas the country used for generating electricity in 1972." The delayed entry of nuclear power into the energy market has, therefore, increased the demand for petroleum.

Similarly, the drive to clean up the internal combustion engine has increased the need for oil. Emission regulations for automobiles are already having an effect on gasoline consumption. On a national scale, the effect of EPA emission standards alone is expected to increase demand for gasoline by

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about 12 percent by 1976. I want to emphasize that this increase will be over and above the normal growth in gasoline demand and will require an additional 900,000 barrels per day of petroleum.

Yet while environmental constraints on coal and nuclear power increase the demand for petroleum, at the same time the environmental movement has had a severe effect on efforts to develop new sources of domestic oil and gas. As you know, one of the largest oilfields on the North American continent has remained locked up on Alaska's North Slope for more than three years because environmental groups blocked the construction of the trans Alaskan pipeline. Even if Congress acts to free the way for construction, it now appears that 1977 is the earliest possible date that production could move from the North Slope. Originally, we had anticipated a 1972 startup for the Alaskan Pipeline. We had estimated that North Slope crude production would increase to 1.4 million barrels per day by 1975 with this volume coming to the West Coast, thus reducing substantially the dependence of California and its neighboring states on imported oil from abroad.

The initial North Slope forecasts also projected substantial amounts of natural gas moving to the lower 48 states by the mid-1970's. In the absence of Alaskan gas, some 600,000 barrels per day of additional foreign oil imports will be needed.

Oil development has been constrained also in offshore California. In 1968, the oil industry spent some $600 million for leases in the Santa Barbara Channel. However, the oil spill near Santa Barbara in 1969 proved to be a benchmark in the environmental movement. Although major discoveries have been made in the Channel since that time, state and federal drilling moratoriums and the application of the National Environmental Policy Act have prevented realization of the production that was forecast from offshore California.

By constraining the use of coal and delaying the development of nuclear power, environmental actions have caused a sudden, sharp increase in demand for liquid petroleum. More and more, oil has become the fuel that is called upon to balance national energy requirements by making up shortages in other forms of energy. But since environmental concerns have also blocked the development of significant sources of domestic petroleum in Alaska, California, and elsewhere, there is simply not enough domestic oil to do the tasks expected of it.

Until recently, the United States enjoyed a surplus of crude oil producing capacity and a surplus of refining capacity. But today U.S. crude oil production, which has been running at capacity for a full year, is declining. U.S. refineries are also operating at near capacity. To make up the significant gap that exists between domestic production and demand, we can turn only to foreign imports. Moreover, this need for imports will increase and if present trends continue, the nation may have to import up to 65 percent of its oil by 1985.

In the months and years just ahead, the U.S. has no alternative but to rely increasingly on imported oil. But the fact is that supplies of crude oil are extremely tight not only in the U.S. but worldwide. This is not widely known outside the petroleum indusrty. Apparently many U.S. citizens still hold the belief that the U.S. simply can go out and get all the foreign oil it wants at any time, and at a very cheap price. This is not true. Because of the disappearance of worldwide spare producing capacity, foreign crude prices have risen rapidly and foreign crude now costs more to use in U.S. refineries than price-controlled domestic crude. In all likelihood, foreign crude will continue to be as expensive or more so for a U.S. refiner than domestic crude. And our outlook indicates that worldwide crude supplies will remain tight for the foreseeable future. Further complicating this prospect is the probability that most of the growth in foreign supply will be predominantly "sour" crudes. An explanation of this term is in order.

Many may assume that refineries can process any crude oil, but in fact each one is designed to process specific types of oil. One of the primary characteristics of crude oil is its sulfur content. High-sulfur crude is known as "sour" crude, while low-sulfur crude—highly desirable due to U.S. environmental regulations—is know as "sweet" crude. A large portion of U.S. refining capacity was built to use domestic crudes, which are mainly sweet. These refineries cannot process high-sulfur "sour" crudes for several reasons.

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One reason is based on metallurgy; the corrosive high-sulfur crudes will literally chew holes in units and piping built to handle sweet crudes. Another reason is environmental; a sweet-crude refinery cannot produce products from sour crude with a sulfur content low enough to meet U.S. environmental requirements. Nor can it meet restrictions on refinery emissions using sour crudes.

Consequently, sweet crude supply is especially tight, both in the U.S. and worldwide. Its availability from foreign countries will become increasingly critical and its price can be expected to rise substantially. The shortage of sweet crude will probably make it impossible to maximize the utilization of U.S. refining capacity this year and during the next few years. This means that substantial imports of finished gasoline and heating oil will be required to meet U.S. demands. This year, at least, there is spare capacity in overseas refineries which can be used to manufacture stocks for shipment to the U.S. But petroleum products made abroad do not always meet U.S. performance requirements and, as a rule, do not fully satisfy U.S. environmental specifications. In addition, the mix of products manufactured from foreign crudes in overseas refineries is usually different from the mix required in this country. Finaly, such foreign products as are available now are already higher-priced than similar U.S. materials. We expect this to be the case for additional volumes as well.

That is how we stand at this point in time, with demand exceeding domestic production and with environmental requirements accelerating our dependence on foreign oil. Our studies indicate that the need for approximately 25 percent of the foreign oil which was imported in 1972 could be traced directly to environmental restrictions. And we estimate that by 1975, some 40 percent of the oil we will have to import will be needed due to environmental laws, regulations, and other actions which have had the effect of reducing our available domestic supplies of energy.

During the past four to five years, then, environmental actions have had a great impact on the nation's system of energy supply. Unfortunately, this cause-and-effect has gone largely unrecognized, as I have mentioned. Until recently, the energy system has managed to withstand the stress; but it can do so no longer. Today all the flexibility we have enjoyed in past years is gone from our fuels supply system and if we continue for the next four years as we have for the past four, the effect could be extremely serious. In its concern for the condition of the environment, the nation has overlooked the ways in which environmental actions have affected energy supply; now, the coin must be turned and more attention must be given to providing a better balance between the two.

California, which has led the way in many respects in establishing environmental improvement as a national goal, must help in this reevaluation process. Like the nation as a whole, California's demand for energy is expected to double by 1985, and petroleum must furnish at least three-fourths of this energy. California is using up its existing oil and gas reserves at a much faster rate than new reserves are being added. The state's natural gas situation is already becoming critical and a shortage will be felt severely by industrial users by 1975. From the standpoint of oil, California today supplies about two-thirds of its needs from indigenous sources and gets the rest from Alaska and from foreign imports. But if present trends continue, by 1985 this situation would be reversed. In 1985, California could furnish only about one-third of its oil needs from sources within the state and from the other "lower 48" states. The remaining two-thirds would have to come from outside the state. Much of this, it is hoped, would come from Alaska's North Slope. But if the trans Alaska pipeline is not built, more than half of California's oil in 1985 would have to come from foreign sources, the major source being the nations of the Eastern Hemisphere. Despite the fact that it is an oil-deficient state, California has shut down offshore drilling in state waters and in most of the state's coastal zone. The passage of Proposition 20 in late 1972 could result, for example, in extensive delays or prohibitions of any kind of development in the coastal zone, including all energy operations.

With both California and the nation in an uncertain condition of energy supply, we must turn to the question of what can be done about it. One thing is clear: there is need for a reevaluation of the timetable for environmental improvement.

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It can be safely stated that near-term petroleum supplies from all sources will not be adequate with normal demand growth trends and the present rigid environmental standards timetable. At least in the 1974–76 time frame, one of two things must happen. Either U.S. petroleum demand will have to be restrained artificially, or certain environmental quality restrictions will have to be relaxed temporarily. We simply will not be able to have both ample supplies of petroleum products and current air quality regulations.

I want to emphasize that the temporary measures I am suggesting to modify environmental standards are not intended to change the nation's goals for environmental improvement. Our environmental goals need not be abandoned; we need only to relax the restrictions to allow more time for reaching the ultimate air quality goals. This would not mean returning to the air mission levels experienced in the late 1960's; it would simply mean that the nation would not go quite so far quite so fast.

The measures I have in mind would include temporary relaxation of certain refinery emissions limitations and sulfur content specifications in fuels. These changes would allow use of higher sulfur content crudes in the refineries which are capable of running them, and the importation of certain overseas products which do not meet present U.S. environmental requirements. Temporary variances in ambient air standards to permit greater use of coal also are essential.

These relaxations would be of dramatic help in bringing petroleum supply and demand more into balance in the short term. They would buy the nation time to get its energy affairs into better order for the long term.

More thought and effort must be given also to conserving energy and using it wisely. We support wholeheartedly the emphasis on this need given in the President's recent energy message to Congress. At present only 50 percent of all energy consumed is converted into useful work; the remaining half is lost in the form of waste heat .We must accept the technological challenge to find new methods for recovering at least a portion of our wasted energy for useful applications.

In the short term, voluntary consumer efforts to reduce overheating, overcooling and overlighting will be ways in which we can all conserve energy. Longer-term, energy can be conserved by more organized approaches to large energy-consuming sectors of the economy such as transportation. New means of mass transportation, including mass transit, may be needed to supplement our existing systems.

The petroleum industry has long been known for its commitment to highways as a primary means of transportation, and an excellent highway system should continue to be a major national goal. But my company supports the view that the time has come for changes at both the federal and state levels in transportation funding. Specifically, we support the creation of transportation trust funds rather than the existing highway trust funds, with monies from these funds being used for the travel systems—including mass transit—that state or local governments choose to install as best meeting their needs. We believe this policy would lead eventually toward a more efficient use of energy and a better transportation balance.

A more measured timetable for environmental improvement and more careful and wise use of energy will help the nation through its precarious short-term energy situation for the next few years. However, in the long term the nation simply cannot afford to rely excessively on imported oil, with its national security and balance of trade drawbacks. In the long run, there is no substitute for the development of the nation's domestic resource base.

The nation needs the trans Alaskan pipeline. It needs the oil in the Santa Barbara Channel. It needs accelerated federal lease sales to facilitate development of oil and gas from the country's prospective offshore regions—the Atlantic Coast, the Gulf of Mexico, the California Coast, and the offshore areas of Alaska. It needs new refineries and nuclear power plants. It needs deepwater oil unloading facilities. It needs development of a synthetic fuels industry to capitalize on its vast deposits of coal and oil shale.

To fulfill these needs, the nation must get a firmer grip on its energy planning. The availability of adequate supplies of long-term energy will depend, among other things, upon the timely development of public and private lands. Yet in recent years, in areas such as Alaska, Delaware, Florida, and California, the energy industries have been frustrated repeatedly by environmental concerns in efforts to find and develop domestic energy sources and to con-

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struct facilitis for the transportation or processing of energy. Our nation must find a way to resolve these energy-environmental conflicts in a more satisfactory, more expeditious, and less expensive manner. Until now the attitude of some states seems to have been oriented toward stopping growth rather than regulating it to achieve balanced objectives. This has been done in the name of the environment. But the way to protect the environment is not to stop everything arbitrarily, but to provide the right set of ground rules to allow for "compatible growth" rather than "no growth." The nation, and the individual states, should consider seriously the adoption of systems for land use planning and management oriented toward two compatible goals: encouraging disciplined growth, including energy development activities, and protecting environmental quality. If we fail to do so, and continue the present confrontation methods, overemphasis on environmental objectives will work at cross purposes with energy needs and the nation may indeed find itself in an energy crisis.

The time has come for the nation to face its energy problems squarely. A national determination is needed to make energy sufficiently as much a national goal as environmental protection or full employment. We face a long, hard struggle where energy is concerned. And we have run out of time for debate and delay. We are going to have to move, and move fast, on energy.

STATEMENT OF RANDALL MEYER, PRESIDENT, EXXON CO., U.S.A. (A DIVISION OF EXXON CORP.)

I. INTRODUCTION

Mr. Chairman, I am Randall Meyer, President of Exxon Company, U.S.A. I am pleased to appear before this Committee at its request and present our Company's ideas on the current energy situation. We, like you, are very concerned about our nation's energy supply outlook.

You have asked us to discuss the nature and causes of the current fuel problems and have asked for our comments on several key issues. In order to be responsive to your request, I feel that I need to address the total energy situation. Current problems are a result of a combination of factors affecting all energy industries. The fuel shortages which have occurred in some locations this winter are a manifestation of deeper seated problems which need to be widely recognized in order that solutions can be developed.

II. BACKGROUND

In October, 1971, Mr. M. A. Wright, Chairman of Exxon Company, U.S.A., in addressing this Committee at the outset of its study under Senate Resolution 45, indicated that a consideration of the importance of the role of energy in the achievement of national goals leads to the conclusion that, "the national energy policy should be to provide the United States with an adequate supply of energy for both present and longer term needs at a reasonable balance between cost, dependability, and protection of the environment." [1] The availability of dependable and secure energy supplies is fundamental to the nation's economic, political, and military security.[2] Ideally, this would imply primary reliance on domestic energy resources.

For many years the domestic energy industries have provided American consumers with adequate supplies of reasonable priced fuels. Private industry has demonstrated its ability to accomplish this task in an efficient manner, given the proper business climate in which to operate. However, over the past few years, the country has not been developing its resources at as fast a rate as its requirements for energy are growing. As a result, the nation's dependence on foreign sources of energy is now increasing very rapidly.

Delayed development of domestic resources has been caused by trends in the economic and political climate set in motion many years ago and substantially aggravated during the last two to three years.

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[1] Statement on Energy and National Goals, M. A. Wright, Senate Committee on Interior and Insular Affairs, October 21, 1971.

[2] U.S. Energy Outlook, A Summary Report of the National Petroleum Council, December, 1972.

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The cause for the delays can best be understood by reviewing four prerequisites necessary for private industry to develop the nation's energy resources in a timely manner.

First, *the resource potential must exist.* As reported by the National Petroleum Council in its recently published study of the U.S. energy outlook, it is generally agreed among scientific and technical experts in the energy fields that the United States has an adequate energy resource base.

Second, *industry must have access to the resources.* Since much of the nation's energy potential, including offshore oil and gas reserves, uranium, coal, and oil shale deposits, is located in the federal domain, the government plays a key role in this area. Past practices for leasing offshore oil and gas acreage have not allowed the development of domestic reserves at the pace needed.

Third, *industry must have a reasonable expectation of economic reward* from its investments in energy resource development. In the case of oil and gas, the economic climate for investments has deteriorated steadily for the past decade. The roots of today's natural gas shortages can be traced as far back as the Phillips Case in 1954, when the Supreme Court ruled that wellhead prices of gas were subject to federal control. The regulation of gas prices at unrealisticaly low levels has had the double-edged effect of artificially stimulating demand and discouraging investments for new reserves. The threat of elimination of the Oil Imports Control Program has served to prevent domestic crude prices from increasing as rapidly as needed. The Tax Reform Act of 1969 further reduced the inventives for oil and gas exploration and development.

Fourth, *the achievement of environmental goals must be balanced against the need to achieve energy and economic goals.* The protection of the environment is not only desirable but vital for society's health and well-being. However, over the past two to three years environmental causes have been pressed to the extreme in some instances without proper regard for cost-benefit relationships. The National Environmental Policy Act has been used as a vehicle to delay the development of sorely needed energy supplies and facilities.

Of the four prerequisites necessary for timely development of resources, only the first, an adequate resource base, has been present over the past decade. The basic problem has been the lack of a coordinated, coherent approach to dealing with energy-related matters. In the absence of clearly established long-term energy objectives and goals, short-term problems have been dealt with by a fragmented, ad hoc approach by all elements of society—industry, the government, and the public. This has produced a climate of such uncertainty that the private energy industries have been contrained from making the needed investments in energy resources and facilities in spite of the availability of an adequate energy resource base.

III. CURRENT ENERGY SITUATION

I would now like to turn to today's energy situation, which is the predictable outgrowth of the conditions I have been describing. Total energy demand is closely related over the long term to economic activity and can be, and in fact, has been predicted with a reasonable degree of accuracy. However, the uncertain economic and political climate has made it extremely difficult to identify the role of individual fuels to meet this demand.

In the last two years, we have lost supply flexibility in our energy system as a result of reduced availability of natural gas and the effect of environmental regulations on the use of coal. The growth in nuclear power plants has been well behind both government and industry forecasts. These factors have all been reflected in recent sharp increases in demand for liquid petroleum products so that oil has become more and more the swing fuel, or the fuel that is called upon to balance national energy requirements.

To illustrate, when natural gas supplies fell short of meeting the needs of industrial consumers, many of these consumers turned to either heating oil or low sulfur heavy fuel oil as their alternate fuel supply. Further aggravating the distillate fuel situation has been the fact that many heavy fuel oil suppliers have found it necessary to utilize distillates to blend with heavy oil in order to meet required sulfur specifications.

The net result of these factors has been that the growth rate for both distillate and heavy fuel oil demand in the past two years has doubled over

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the growth experienced during the previous decade. The uncertainties I have described, together with facilities siting problems, have delayed the expansion of domestic refining capacity required to supply the additional products.

Mr. Chairman, I have gone into this much detail about the past because I believe it is essential background for a proper understanding of the immediate situation and for seeking improvement in the period ahead.

Your Committee is today particularly interested in the short-term situation, specificaly as it affects heating oil. Exxon, U.S.A. has most recently spoken to its own situation in the testimony of Mr. L. G. Rawl, a Senior Vice President of our Company, before the Cost of Living Council, and I would like to submit a copy of his statement for the record. I can summarize our situation very briefly. We have met, and expect to continue meeting through the winter, our contractual commitments to our customers in spite of the fact that we have had to take some uneconomic steps to do so. To meet our demand, Exxon, U.S.A. has produced 30 percent more distillate during the period November through January than during the comparable period last year.

However, I wish to emphasize that our supply system has been extended to the limit in order to accomplish this, and I suspect this is generally true in the industry. We know, for example, that industry has produced 12 percent more distillate so far this winter than last year. Furthermore, we cannot believe industry would be importing the volumes of high cost foreign supplies of heating oil which it has if there were adequate domestic refining capacity available. It seems unlikely that industry can provide supplies to meet a similar growth in demand next year. While little can be done about next year, there is an urgent need to provide the economic and regulatory climate required to encourage long range expansion of domestic refining facilities.

IV. LONG-TERM SOLUTIONS

I would like to turn now to a discussion of the long-term solutions to the nation's energy problems because we believe that any actions taken to solve short-range problems should be consistent with long-range objectives.

In order to develop lasting solutions, it is essential that a well-defined national energy policy be adopted with specific policies and programs designed to achieve long-range objectives. Much work has been done to define the key elements which should comprise a national energy policy. The National Petroleum Council recently completed one of the most exhaustive studies ever conducted on the nation's energy situation. The report documenting this study [3] stresses the need for a favorable economic climate and sound national policies if the potential for increasing domestic supplies is to be realized. The report also contains a comprehensive list of recommendations for a United States energy policy. Our Company participated in this study, and we fully endorse the policies proposed in the report.

I believe it is worthwhile to comment here on some of the major policy issues which have a direct bearing on the long-term solutions to the problems we are discussing today.

Economic and Political Factors—An economic and political framework which is conducive to domestic energy development is an obvious prerequisite to meeting the nation's goals. A first consideration in this regard is the maintenance of a competitive, private enterprise system which is the best way to assure satisfaction of the nation's needs in the most efficient way possible. Industry has proven it has the ability, given a reasonable opportunity, to provide the supplies needed.

The importance of price to our economic system cannot be overemphasized. Recent concern with inflation has led to more rigid conrtol of prices. Control of inflation is important to the economic well-being of our nation and should be given a high priority. However, we must find ways to provide sufficient incentives to develop the increasingly higher cost domestic energy resources while controlling inflation, for both are essential goals.

Prices have a substantial effect on both long-term supply and demand and are a natural regulator to assure the most efficient allocation of available resources in the economy. Undue regulation or interference with prices will lead to unwanted results and prevent attainment of long-term goals. The impact of artificially low prices for natural gas on both demand and supply

[3] "U.S. Energy Outlook, A Summary Report of the National Petroleum Council", December, 1972.

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is a clear-cut example. Prices for natural gas should be deregulated, or at least allowed to increase to market-clearing levels.

Crude and product prices have also been depressed and should be allowed to rise with increasing costs. The Tax Reform Act of 1969 further contributed to industry's already rising costs. Under provisions of this Act, industry's tax burden was increased more than $500 million annually.

As a result of these economic factors, rates of return on new investment have not been sufficient to sustain levels of activity necessary to develop energy reserves as rapidly as needed. Testimony presented to this Committee by Dr. T. D. Barrow of our Company[4] and studies by the Department of Interior[5] have shown that the rate of return realized by industry in recent years on exploratory oil and gas investments has been in the 3 to 7 percent range. Such returns are not adequate incentive to attract the investments needed for the high risk business of exploring for new reserves.

Security of Supply—The availability of dependable and secure energy supplies is fundamental to our national and economic security. Development of strong domestic energy industries should be encouraged to avoid excessive dependence on foreign supplies.

The rapid growth in dependence on offshore oil imports, which are expected to be about $5 million barrels per day this year and continue growing over the next several years, should be a matter of national concern and should prompt immediate actions to encourage development of domestic supplies.

The Oil Imports Control Program has been an important part of U.S. energy policies in the past and should be retained, with the overall level set as needed to fill the gap between domestic production and demand.

In order to provide some flexibility in the event of an interruption in offshore petroleum supplies, the nation should develop contingency plans which account for the probability of supply interruptions.

The administration of the Oil Imports Program has resulted in the exporting of refining capacity, thereby reducing the overall security of U.S. petroleum supplies. Uncertainty caused by past administration of the program, coupled with refinery siting problems, have been among the major factors causing delays in industry's construction of domestic refining capacity. It is important that this uncertainty be resolved in such a manner that there will be incentive for industry to proceed rapidly with construction of additional capacity. To our knowledge, no new refineries are currently under construction despite the need for additional capacity.

Resource Availability and Development—Much of the nation's energy resource potential is located in the federal domain. Potentially productive federal acreage should be made available to industry for exploration and development at a rate consistent with needs. Past offerings have not been adequate in size or frequency. We are encouraged by the recent accelerated frequency of sales, but the acreage offered needs to be substantially increased.

Local and national policies with respect to access to land and water space should be designed to encourage development of energy reesrves consistent with the concept of compatible multiple use of the area. Mr. John L. Loftis recently testified before this Committee on the Exxon Company's support of legislation to encourage a disciplined, more balanced approach to land-use planning and management.[6]

Environmental Protection—The operations of industry and governments and the behavior of individual citizens should be such that the environment is properly protected. Environmental considerations should play an integral role of the U.S. energy future, but harassment and delaying tactics by those that do not objectively consider the responsibility of both points of view are to be avoided.

Some balance between the need to protect the environment and the need to develop our energy resources should be reached. Delays associated with environmental considerations have been lengthy in many instances and are having a significant impact on industry's ability to develop sources of raw materials and facilities in a timely and efficient manner.

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[4] Statement with reference to Senate Resolution 45, Thomas D. Barrow, Senate Committee on Interior and Insular Affairs, April 11, 1972.

[5] *The Role of Petroleum and Natural Gas from the Outer Continental Shelf in the National Supply of Petroleum and Natural Gas*, Technical Bulletin 5, Dept. of Interior, May, 1970.

[6] Statement on the Land Use Policy and Planning Assistance Act of 1973 (S. 268), John L. Loftis, Jr., Senate Committee on Interior and Insular Affairs, February 7, 1973.

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Research and Development—The importance of energy research and development is unquestioned. Technology for the early development of coal gas and liquid synthetics is very important as these supplies are badly needed. Private and government research and development of new forms of energy should be pursued at levels commensurate with the potential for success. Profit-motivated private research should be encouraged by government policies which create a favorable environment for commercial development of the fruits of this research. Government-sponsored research should be limited to those areas where a clear public need exists and where there is insufficient commercial incentive to motivate private research.

Efficiency of Energy Utilization—Energy policies should encourage improved efficiency in all aspects of the development and utilization of energy resources. The energy industries and government should exercise positive leadership in inviting all American users of energy to conserve these valuable domestic resources through wise use, application of more advanced technology, and elimination of waste. Efficient use can best be promoted by allowing energy prices to operate as the natural allocator of resources. Arbitrary reductions in the use of energy would not only be detrimental to the nation's economy, but would also impede efforts to improve both the environment and the quality of life.

V. CONCLUSION

In conclusion, it is imperative that a firm national resolve to deal with our energy problems be adopted and embraced by all segments of society—the public, government, and industry—if lasting, long-term solutions are to be achieved. This resolve must be translated into comprehensive national energy policies with clearly defined long-range objectives. Such policies will provide a basis for better coordination of energy related matters within the government. This Committee is making a valuable contribution to an understanding of policies needed by pursuing its studies under Senate Resolution 45.

If the nation adopts a firm resolve to develop its domestic energy resources, we are confident the energy industries will respond. However, a considerable period of time will be required to develop large volumes of additional supplies or substantially modify manufacturing and distribution facilities.

I believe it is recognized that over the next two to three years, there is a reasonable probability that the nation's energy situation will become even more difficult than it has been this winter. Therefore, as I have attempted to stress, we believe it is most important that any programs designed to meet short term needs be fully compatible with the nation's long term goals.

Thank you, Mr. Chairman, for this opportunity to present our views.

STATEMENT OF ROBERT V. SELLERS, CHAIRMAN OF THE BOARD, CITIES SERVICE CO., NEW YORK CITY

Mr. SELLERS. Thank you, Mr. Chairman.

The prepared statement has been submitted for the record.

Senator MCINTYRE. It will be accepted and it will be printed in its entirety.

Mr. SELLERS. I would like to read in full a few segments of it and paraphrase the balance.

My name is Robert V. Sellers. I am chairman of the board of Cities Service Co., New York City.

Cities Service Co. is a small oil company engaged in all phases of the petroleum industry in the United States. We also explore for oil and gas in other areas of the world and produce oil in Canada and Columbia.

The company's net production of crude oil in the United States is approximately 126,000 barrels per day or about 1½ percent of total domestic production, or about 2 percent of domestic refinery runs.

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Our sales of petroleum products are about 380,0000 barrels daily, or about 2.5 percent of product sales in the United States. Our sales of products are almost exclusively to independent businessmen who, in turn, serve the ultimate consumer.

A small percentage of the total volume of petroleum products sold by Cities Service moves directly to the ultimate consumer through our facilities and sales. The balance moves down through independent businessmen. Since the main emphasis today is on gasoline, I would like to point out that only 7 percent of the gasoline we sold last year moved directly to the ultimate consumer; 30 percent was sold to independent businessmen who, in turn, resold under their own brands; about 40 percent was sold to independent businessmen who operate as "distributors," using the Cities Service brand name, the remainder or about 23 percent moved directly to independent retailers who operate service stations flying the CITCO flag. The causes behind the gasoline shortage are cited in the statement.

I will summarize them here in three groups. A group of circumstances which have led to a very high demand for gasoline at the current time, these are mainly the very strong U.S. economic activities at this point in time; as well, the increasing use of automobiles and the increasing use of gasoline per automobile.

Secondly, limitations on abilities of refiners to expand in recent years. Economics primarily, environmental, siting, and crude supply restrictions secondarily have limited the expansion of the U.S. refining capacity for the past several years, resulting in a serious shortage at the moment.

Thirdly, the lack of flexibility in utilization of available crude oil and refined products because of environmental restrictions which are being applied to them at a rate faster than the U.S. and world oil economy can adjust to them.

With respect to question 2, the extent of the effect the shortage will have on the Nation.

This summer in total, the gasoline shortage will be of the nuisance variety rather than a serious problem. It will have a serious impact in local situations where the flexibility of the distribution system is not sufficient to meet a local problem.

Without definitive action by the government to remove the impediments to expansion of petroleum supplies, the situation could become extremely serious in the following summer and could be a castrophe for the U.S. economy in the years following.

The impact that the shortages will have on competition within the petroleum industry:

The petroleum industry has been and is one of the most highly competitive industries in the U.S. economy. I believe it will continue to be so. For approximately 50 years, the industry has existed in a climate of ample supply. When shortages did occur, they were normally caused by some external factor which was relatively short lived and clearly visible.

The competition was primarily for markets and secondarily for supply. We are now in a situation where the petroleum world has turned around. The competition is for supply and markets are more plentiful than products to serve them.

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I make no pretense to being wise enough to anticipate what the ultimate effect of this change will be, nor even whether the current situation will, in fact, be that long-lived.

Intelligent policies by the U.S. Government can lead to restoration of a situation of adequate refining capacity. The question then will become whether sufficient crude oil will be available to operate that capacity. There is no certainty that it will be available nor that it will be at a price we can afford.

Again intelligent actions of the U.S. Government encouraging exploration for and development of domestic reserves can help.

One of the principal concerns of this committee is the adequacy of supply for so-called "independent marketers. There has been a great deal in the press recently about the closing of some independent service stations. There has been very little in the press about the fact that many more branded stations are being closed than independents.

These closings reflect the competition in the market-place and they are merely accelerated by the current supply situation.

From a great many standpoints, particularly distribution efficiency and land-use economics, I am convinced that the Nation will be well served by reductions in marketing overcapacity and inefficiencies.

I would like to mention here that in the case of the Cities Service Co. in 1963 our products were marketed under our brand at 14,000 stations in the United States and into eastern Canada.

At the end of last year they were being marketed through 8,700 stations. As I will comment more in a moment, that number has been planned to decrease. If the current shortage situation does not end with a substantial strong independent marketing segment, then my judgment of the flexibility and capability of the independent petroleum marketer is wrong.

The next question is what steps can and should be taken to prevent such shortages and their recurrence?

Most of the steps necessary to encourage the development of resources and facilities to overcome the current energy shortage in the United States were covered in the President's rcommendations in his Energy message. The import program is sufficiently flexible and provides sufficient incentive for actions by the domestic industry to correct the current imbalances over a period of time.

What is called for is a sustaining program over a period of many years.

Programs to encourage conservation in the use of energy are appropriate. It is my belief that the U.S. economy and society will not stand for, nor should they suffer from, the need to make substantial reductions in energy use to solve the energy shortage.

The Government must embrace wholeheartedly policies which will permit and encourage:

—Development of domestic resources—oil, gas, coal, and nuclear energy;

—Development of facilities for processing and transporting fuels. This includes resolving the siting problems, resolving the jurisdictional problems over deepwater unloading ports, and so on.

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—Adequate economic incentive for the industry to undertake the necessary expenditures; and

—A sufficiently flexible import program to allow interaction with the world petroleum market in order to balance domestic supply.

The next question: Impact that gasoline shortages will have on other products for the remainder of this year and on home heating oil supplies next winter.

The current efforts by domestic refiners to produce more gasoline will result in severe short-falls in kerosene, jet fuel, and distillates. This shortage will reach through the next heating season. During the next 10 months, airlines and the Federal Government will have difficulty in obtaining sufficient jet fuel. We must import very large quantities of distillates this coming summer and fall, if we are to avoid severe shortages during the winter. Our economists anticipate the need for imported distillates to be in the neighborhood of 400,000 barrels per day for the balance of 1973 and the first quarter of 1974.

There is no assurance that this quantity of distillates will be available to the United States. However, domestic refiners must continue to maximize yields of gasoline while obtaining as much of the heavier products as possible from overseas.

The last point, the effect of the recently announced replacement of the quota system with a tariff license fee program on this year's supply of petroleum products.

The removal of volumetric limitations on imports of crude oil and products has given the U.S. industry freedom to reach throughout the world for supply to meet the domestic demand. Current economics in the industry prohibit the use of these foreign sources. Crude and product prices in foreign markets are currently above those in the United States. Consequently, U. S. suppliers are unwilling to commit for the volumes of either gasoline or distillates which are needed because they face a potential exorbitant loss in handling such material. Although the current price controls on the petroleum industry allow a bit of flexibility in product prices, that flexibility does not approach the level required to absorb the high cost that is currently involved in the purchase of material from foreign refineries. As far as the current situation is concerned, the tariff license fee programs an improvement over the quota system, since it allows for the importation of whatever volume of material is needed in the U.S. market. With restrictions resulting from the uncertainties of current price controls and industry economics, the material will not be imported and the United States will run short.

I would like to comment briefly on our particular company's situation sice some actions that we started 1 or 2 years ago before the current supply situation was foreseen certainly by us, and I think by very many others, have a distinct impact on our relationship with some of our customers and also some of the people from whom we purchase crude and products.

Two years ago, we began a series of actions to improve our marketing performance. The key elements behind this were:

1. Our need to concentrate sales of our products in geographical areas which we could supply economically;

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2. Our need to provide for movement of our petroleum products from refinery to ultimate consumer in the most efficient manner possible; and

3. Our need to reduce the amount of capital which we had committed to marketing operations.

As a result of this study the decision was reached a year ago to close our East Chicago, Ind., refinery. This decision was based on the long-term outlook for the refinery. Substantial expenditures would have been required to allow the refinery to meet impending product quality and pollution control standards. Having made these expenditures, we would have faced even larger expenditures to modernize the refinery within a few years.

This combination of expenditures could not be justified economically.

The closing of this refinery and the completion of incremental additions to our refinery capacity at Lake Charles, La., were projected to result in a decrease in available product of 6 million barrels of gasoline and 2 million barrels of distillate fuels annually.

Thus for 2 years we have had underway a series of steps designed to improve our efficiency.

These steps included the elimination of sales volume to a number of independent businessmen, some of whom were marketing under their own brand names, but most of them were selling under the Citco brand.

In the same period, we turned a large number of operations which we had conducted, directly over to independent businessmen.

We also took on new distributor accounts in areas which we can serve economically from our existing transportation network.

The customers who needed to find a new supplier early in this period had little difficulty in obtaining supply. With the more recent product shortages, difficulty at that point has been encountered. Our actions in these cases will be discussed in a moment.

During the past 5 months our production of gasoline has been below the volume we had anticipated by about 2 million barrels. Of this about 55 percent was due to extra production of distillates during the winter and the balance because of upsets in refinery operations or inability to transport sufficient crude oil to the refinery. With all customers wanting larger volumes, we have been forced to allocate products to our customers. Our current supply problem is aggravated by the fact that some of our customers, both branded and unbranded marketers, whose contracts have expired, have been unable to find a new supply. In some instances, we have been able to continue supplying some product to these customers so that they can stay in business until they locate a new source of supply.

We expect to be able to supply 100-percent of last year's gasoline volume this summer but our ability to accomplish this assumes full production from our Lake Charles refinery.

If the proposals made in the President's energy message to allow and encourage refinery construction in the United States, are embraced in firm policies and if the economics of the petroleum business are permitted to provide economic incentive to refinery construction, Cities Service will expand its domestic refining capacity. Such ex-

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pansions are essential to improvement in the U.S. petroleum supply picture.

We are working with a number of independent marketers in an attempt to aid them in obtaining additional supply. A letter to the Honorable William Simon, Deputy Secretary of the Treasury, describing these activities is attached, now to our statement and will be in the record.

In summary, a definitive national energy statement was absolutely essential before major headway could be made toward solving the U.S. energy shortage. What is called for now is the embracing by the entire U.S. Government of the principles put forward in the President's message and the assurance to the petroleum economy of the United States that it is wanted, that its products are wanted and that it will be allowed to produce the products that the Nation needs.

Thank you.

[The complete statement of Mr. Sellers follows:]

STATEMENT OF ROBERT V. SELLERS, CHAIRMAN OF THE BOARD, CITIES SERVICE CO.

INTRODUCTION

My name is Robert V. Sellers. I am Chairman of the Board of Cities Service Company, New York City.

Cities Service Company is a small oil company engaged in all phases of the petroleum industry in the Uinted States. We also explore for oil and gas in other areas of the world and produce oil in Canada and Colombia. The Company's net production of crude oil in the United States is approximately 126,000 barrels per day, or about 1½ percent of total domestic production. Our refinery runs are currently approximately 240,000 barrels per day, or about 2 percent of domestic refinery runs. Our sales of petoleum products are about 380,000 barrels daily, or about 2½ percent of product sales in the United States. Our sales of products are almost exclusively to independent businesmen who. in turn, serve the ultimate consumer.

A small percentage of the total volume of petroleum products sold by Cities Service moves directly to the ultimate consumer through our facilities and sales. The balance moves through independent businessmen. Since the main emphasis today is on gasoline, I would like to point out that only about 7 percent of the gasoline we sold last year moved directly to the ultimate consumer; about 30 percent was sold to independent businessmen who, in turn, resold under their own brands; about 40 percent was sold to independent businessmen who operate as "distributors" using the Cities Service brand name; the remainder, or about 23 percent, moved directly to independent retailers who operate service stations flying the CITGO flag.

In the letter inviting me to present testimony before this Committee, six items were mentioned that were of specific interest to the Committee. My statement will cover those six items. The views expressed with respect to those items are my views and those of my associates in Cities Service. We have no basis to speak for anyone else. Following my general comments on the six items, I will describe briefly Cities Service's position in the current petroleum supply situation.

1. The causes behind this gasoline shortage

The United States is currently faced with a shortage of all petroleum fuels. Since this is the beginning of the high gasoline consuming season, attention is presently focused on gasoline supply. However, it is a serious mistake to overlook the fact that liquid fuels of acceptable quality in every product classification are in short supply. The causes for these shortages are numerous, complex and interacting. These can be classed into three categories:

First, there are a number of factors which have led to substantial increases in demand. These include the current very high level of economic activity in the United States which has created high demand in every sector of energy use; increased consumption of gasoline per vehicle arising from more energy-

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requiring accessories and decreased efficiency of engines designed to reduce pollution; an unusually rapid expansion of the United States automobile population, which is related to the high level of economic activity.

It is worth pointing out here that in the last four years gasoline required per mile, with the same auxiliary equipment, has increased 17 percent for the average automobile on the road. This results from a combination of size of car and engine, addition of pollution control devices, and less efficient engine design to accommodate these control devices. New cars are being added at record rates, with new car registrations going over 10 million units in 1971 and 1972 and projected at over 11 million in 1973. Retirements of old cars have not increased significantly.

Second, a number of factors have combined to result in limited additions to new product supply. Much has been written about the lack of refinery construction in the United States. For several years, the economics of the petroleum business have not justified new refinery construction in this country. Anyone who could justify construction or was willing to gamble on better economics later was discouraged or prohibited by uncertainty over future product specifications, by inability to obtain sites where refineries could be built, by inability to get permision to build new transportation facilities, and by uncertainty over availability of raw materials for refineries.

Currently, the most serious hindrance on obtaining additional supply is domestic price regulation which serves to isolate the U.S. petroleum economy from that of the rest of the world at the precise point in time when we have become more dependent than ever before on availability of supply from foreign crude oil production and foreign refining capacity.

Short term the problem is complicated by the shortage of sweet crude oil, i.e., low-sulfur crude oil, worldwide. Not only in the United States, but in many other countries, the desire for lower levels of air pollution has led to increasing demand for sweet crude. There simpy is not enough available in the world to supply that demand. As of today refinery facilities are not in existence to process adequate volumes of sour crude while meeting current air quality standards. As a result, with a severe shortage of gasoline and an impending further shortage of distillate fuels, some refineries in the U.S., including our own, are operating at less than potential capacity because of unavailability of sufficient sweet crude. The construction of additional facilities to enable refineries to utilize sour crude and meet current air quality and product standards will take several years.

Other factors have entered to limit supply. Most U.S. refineries have used natural gas as their principal fuel, for exactly the same reason that so many electric utilities have used it—it has been cheap and clean. With natural gas usage being restricted, refineries have been forced to burn their own liquid fuels, resulting in a decrease in product output. This phenomenon will be an increasingly significant factor over the next few years. Furthermore, the requirement to manufacture unleaded gasoline will reduce the amount of gasoline which can be made from a barrel of crude.

Third, several factors have caused unusual demand to be thrown on liquid fuels and other factors have limited the ability to use available fuels. The short-fall of natural gas had a significant impact on the liquid fuel picture last year for the first time. The increased curtailment of natural gas resulted in increased demand by utility and industrial customers for oil—low-sulfur oil. Low-sulfur fuel was made by blending available high-sulfur materials with low-sulfur, lighter fuels. These lighter fuels, in turn, reduce the amount of fuel available for home heating, drying crops, running jet planes or diesel buses, and making gasoline. The limitations on sulfur in fuel oils, incluidng refinery fuel, restricted the ability of U.S. refineries to utilize the crude that was available in the world—mostly high-sulfur material.

At the start of this driving season, domestic gasoline inventories were at an exceptionally low level. This was primarily because of the shift of refinery operations to higher than normal yield of distillates during the past winter. Cold weather early in the season, coupled with substitution of distillates for natural gas and use of distillates for blending with high-sulfur fuels resulted in a high degree of alarm concerning adequacy of distillate supplies. Fortunately, warmer weather and increased fuel oil imports later in the winter ameliorated the problem. At the end of the heating season, distillate inventories were adequate but not excessive. Had the first quarter of this year been as cold as the last quarter of last year, we would have been in a much more serious distillate situation than we actually experienced.

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In summary, the causes of the current gasoline shortage are:

1. High demand for gasoline created by the health of the U.S. economy and the decreasing efficiency of new automobiles.
2. Limitations on the ability of refiners to expand in recent years.
3. Lack of flexibility in utilization of available crude oil and products.

2. The extent of the effect the shortage will have on the nation

This summer our economists estimate that the United States will be short by approximately 250,000 barrels per day of gasoline. This is approximately 4 percent of the normal usage during the driving season. This level of shortage is better categorized as a nuisance than anything else. There will be some inhibitions on the use of gasoline. There will be some isolated instances of product shortage which may be severe to a particular area. With the low level of inventories that presently exist, the nation's supply system simply does not have the flexibility to offset such shortages. Unless significant actions are taken in the United States, the situation will become much more serious.

There are severe limitations on how rapidly refinery capacity in the United States can be expanded. There are limited quantities of gasoline available from refineries in the rest of the world. The typical foreign refinery is designed for producing fuel oil and can only produce a small volume of gasoline.

Without definitive action by government which would lead to constructive actions by industry, the shortage next year could represent a very serious problem for the United States economy. We must get started promptly unless our shortage is to be much more severe in the summer of 1974.

3. The impact shortages will have on competition within the oil industry

The petroleum industry has been and is one of the most highly competitive industries in the United States economy. I believe it will continue to be so. For approximately 50 years, the industry has existed in a climate of ample supply. When shortages did occur, they were normally caused by some external factor which was relatively short-lived. The competition was primarily for markets and secondarily for supply. We are now in a situation where the petroleum world has turned around. The competition is for supply and markets are more plentiful than products to serve them. I make no pretense to being wise enough to anticipate what the ultimate effect of this change will be, nor even whether the current situation will, in fact, be that long-lived.

Intelligent policies by the United States Government can lead to restoration of a situation of adequate refining capacity. The question then will become whether sufficient crude oil will be available to operate that capacity. There is no certainty that it will be available nor that it will be at a price we can afford. Again, intelligent actions of the United States Government encouraging exploration for and development of domestic reserves can help.

One of the principal concerns of this Committee is the adequacy of supply for "independent marketers." There has been a great deal in the press recently about the closing of some independent service stations. There has been very little in the press about the fact that many more branded stations are being closed. These closings reflect the competition in the marketplace and they are merely accelerated by the current supply situation.

From many standpoints, particularly distribution efficiency and land use economics, I am convinced that the nation will be well served by reductions in marketing overcapacity and inefficiencies.

If the current short situation does not end with a substantial strong independent marketing segment, then my judgment of the flexibility and capability of the independent petroleum marketer is wrong.

4. What steps can and should be taken to prevent such shortages and their reoccurrence

Most of the steps necessary to encourage development of resources and facilities to overcome the current energy shortage in the United States were covered in the President's recommendations in his Energy Message. The import program which the President announced is sufficiently flexible and provides sufficient incentive for actions by the domestic industry to correct the current imbalances over a period of time. However, it is physically impossible to correct these imbalances in a short period of time. What is called for is a sustaining program over a period of many years.

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Programs to encourage conservation in the use of energy are appropriate. It is my belief that the United States economy and society will not stand for, nor should they suffer from, the need to make substantial reductions in energy use to solve the energy shortage.

The Government must embrace wholeheartedly policies which will permit and encourage—

Development of domsetic resources—oil, gas, coal and nuclear energy;

Development of facilities for processing and transporting fuels;

Adequate economic incentive for industry to undertake the necessary expenditures; and

A sufficiently flexible import program to allow interaction with the world petroleum market in order to balance domestic supply.

5. The impact that gasoline shortages will have on other products for the remainder of this year and on home heating oil supplies next winter

The current efforts by domestic refiners to produce more gasoline will result in severe short-falls in kerosene, jet fuel and distillates. This shortage will reach through the next heating season. During the next ten months, airlines and the Federal Government will have difficulty in obtaining sufficient jet fuel. We must import very large quantities of distillates this coming summer and fall, if we are to avoid severe shortages during the winter. We anticipate that the need for imported distillates will be in the neighborhood of 400,000 barrels per day for the balance of 1973 and the first quater of 1974. There is no assurance that this quantity of distillates will be available to the United States. However, domestic refiners must continue to maximize yields of gasoline while obtaining as much of the heavier products as possible from overseas.

6. The effect the recently announced replacement of the quota system with a tariff license fee program will have on this year's supply of petroleum products

The removal of volumetric limitations on imports of crude oil and products nas given the United States industry freedom to reach throughout the world for supply to meet the domestic demand. Current economics in the industry prohibit the use of these foreign sources. Crude and product prices in foreign markets are currently above those in the United States. Consequently, United States suppliers are unwilling to commit for the volumes of either gasoline or distillates which are needed because they face a potential exorbitant loss in handling such material. Although the current price controls on the petroleum industry allow a bit of flexibility in product prices, that flexibility does not approach the level required to absorb the high cost that is currently involved in the purchase of material from foreign refineries. As far as the current situation is concerned, the tariff license fee program is an improvement over the quota system, since it allows for the importation of whatever volume of material is needed in the United States market. With restrictions resulting from the uncertainties of current price controls and industry economics, the material will not be imported and the United States will run short.

CITIES SERVICE COMPANY'S POSITION

Two years ago, Cities Service Company began a series of actions to improve its marketing performance. They key elements behind this program were:

1. Our need to concentrate sales of our products in geographical areas which we could supply economically:

2. Our need to provide for movement of our petroleum products from refinery to ultimate consumer in the most efficient manner possible; and

3. Our need to reduce the amount of capital which we had committed to marketing operations.

At the same time we began an intensive study of our refining operations. A result of this study was the decision reached a year ago to close our East Chicago, Indiana, refinery. This decision was based on the long-term outlook for the refinery. Substantial expenditures would have been required to allow the refinery to meet impending product quality and pollution control standards. Having made these expenditures, we would have faced even larger expenditures to modernize the refinery within a few years. These expenditures could not be justified economically.

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The closing of this refinery and the completion of incremental additions to our refinery capacity at Lake Charles, Louisiana, were projected to result in a decrease in available product of 6,000,000 barrels of gasoline and 2,000,000 barrels of distillate fuels annually.

For two years we have had underway a series of steps designed to improve the efficiency of our marketing operations. These steps included the elimination of sales to a number of independent businessmen, some of whom were marketing under their own brand names, but most of whom were selling under the CITGO brand.

In the same period, we turned a large number of operations which we had conducted directly over to independent businessmen. We also took on new distributor accounts in areas which we can serve economically from our existing transportation network.

The customers who needed to find a new supplier early in this period had little difficulty in obtaining supply. With the more recent product shortages, difficulty has been encountered. Our actions in these cases will be discussed in a moment.

During the past five months, our production of gasoline has been below the volume we had anticipated by about 2,000,000 barrels. Of this about 55 percent was due to extra production of distillates during the winter and the balance because of upsets in refinery operation or inability to transport sufficient crude oil to the refinery. With all customers wanting larger volumes, we have been forced to allocate products to our customers.

Our current supply problem is aggravated by the fact that some of our customers, both branded and unbranded marketers, whose contracts have expired, have been unable to find a new supply. In some instances, we have been able to continue supplying some product to these customers so that they can stay in business until they locate a new source of supply.

We expect to be able to supply 100 percent of last year's gasoline volume this summer, but our ability to accomplish this assumes full production from our Lake Charles refinery.

If the proposals made in the President's Energy Message to allow and encourage refinery construction in the United States are embraced in firm policies and if the economics of the petroleum business are permitted to provide economic incentive to refinery construction, Cities Service will expand its domestic refining capacity. Such expansions are essential to improvement in the U.S. petroleum supply picture.

We are working with a number of independent marketers in an attempt to aid them in obtaining additional supply. A letter to The Honorable William Simon, Deputy Secretary of the Treasury, describing these activities is attached.

SUMMARY

A definitive national energy statement was absolutely essential before major headway could be made toward solving the United States energy shortage. The President's new import program and his other actions and recommendations to Congress represent positive steps toward allowing resolution of the country's energy problems and elimination of future refined product shortages. Most of the significant elements of the President's program will require action by the Congress. Even the establishment by executive order of the new import program and the plans for accelerated leasing of government lands could be frustrated by legal challenges or through future executive actions. It is imperative that Congress expeditiously endorse the objectives outlined in the President's program. Legislation aimed toward providing a basis for adjudicating controversies regarding siting of plants, terminals, and deep water port facilities should receive the highest of priorities. Uncertainties about future gasoline and other product specifications, which are the result of still-evolving standards for environmental protection, must be resolved.

A further deterrent to new investment has been the oil industry's inability to obtain prices for refined products which provided an adequate return on investment. Price controls have aggravated this situation.

The decisions required to build or expand refinery capacity are dependent upon having a reasonable expectation that the investment will prove economically viable in the future. A new refinery involves an investment of several hundred million dollars and it is built to operate for twenty or more years.

Most of the President's proposals were directed toward long-term solutions

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to the energy shortage. The new import program should aid the ability to obtain foreign supplementary supplies and help transcend the difficult period we are in. In addition to the import program, we believe that there are some other steps which can be taken over the short-term to help the immediate situation.

First, during this period when imports of finished products must be utilized, domestic refineries should concentrate primarily on gasoline production. Since foreign refineries are designed for high yields of distillates and heavy fuel oils, the possibilities for fulfilling shortages of these products from foreign sources is relatively much greater than in the case of gasoline. In order to assure that the required volumes of foreign product will be imported into the .S. market, price control regulations must make it clear that the importer can recover his cost and earn a reasonable profit.

In addition, we strongly recommend that variances be permitted under controls covering the sulfur content of fuel oils and reasonable short-term relief be allowed on air and water standards. This would allow both domestic and foreign refineries to substantially increase the amount of products available for United States energy markets.

We urge further that the upcoming regulations for supplying unleaded gasoline be deferred in line with the delayed introduction of the catalytic muffler recently suggested by the EPA.

As a further aid, consideration should be given to increasing government purchases of military jet fuel from foreign source points, on a short-term basis, to minimize this drain on domestic motor gasoline and distillate supplies.

We also believe that the energy conservation suggestions made by Secretary Morton were well directed and we urge that this message be given broader exposure emphasizing the benefits from efficient usage of automobiles; from maximum utilization of mass transit; and from a modest adjustment to current thinking regarding heating and air-conditioning standards.

CITIES SERVICE CO.,
New York, N.Y., May 7, 1973.

Hon. WILLIAM SIMON,
Deputy Secretary of the Treasury,
Washington, D.C.

DEAR SIR: For the record I would like to inform you of steps Cities Service has and is taking to assist independent private brand marketers, who are our customers, with their efforts to obtain adequate supplies of gasoline.

Last week we offered our customers in this category our services in assembling cargo quantities, arranging for transportation, providing terminal facilities, and arranging necessary exchanges. This will provide to them the logistics to allow for purchase of imported product using their own import licenses or any part of our recent import allocation that they may need.

As you know, the 948,000 barrel allocation recently granted to Cities Service by the OIAB required us to deliver all of this product to independent private brand marketers. In our judgment, this requirement makes it impossible for us to use this allocation without discriminating against our independent CITGO brand customers. We are presently, and have been consistently, treating both groups of customers in exactly the same way during this period when we are forced to allocate products at a lower level than normal sales requirements.

During this period of supply shortage, Cities Service is offering the use of its distribution facilities as outlined above at no profit to the Company. We will only require for our services actual transportation and terminaling charges which we would customarily charge to another refiner or distributor. We intend to make this offer available also to independent private brand marketers in the Midwest who are not necessarily our customers, but who can purchase in cargo quantities. Hopefully this will provide access for some supplies in the Midwest where there is apparently an acute need for both resellers and agricultural use.

You should know that in the past we have been a significant supplier to independent private brand marketers. I believe it will be of interest to you that our most recent sales projection indicates that for the calendar year of 1973 approximately 30% of our total gasoline sales will be made to this class of customer.

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I simply wanted you to know that we are aware of the supply problem facing marketers in this category and that we are doing what we can to be of assistance to them.

Sincerely yours,

R. V. SELLERS.

Senator MCINTYRE. We will call on Mr. Card, senior vice president of Texaco.

STATEMENT OF ANNON M. CARD, SENIOR VICE PRESIDENT, TEXACO, ACCOMPANIED BY JAMES PIPKIN, EXECUTIVE VICE PRESIDENT

Mr. CARD. Thank you, Mr. Chairman.

My name is Annon M. Card. I am a senior vice president of Texaco, Inc.

I am pleased to have this opportunity to present to this subcommittee Texaco's views concerning the shortage of gasoline and other petroleum product supplies.

I presented testimony on the gasoline shortage last week to the Joint Economic Committee. I will expand on that testimony today providing information on other petroleum products as well as gasoline. I will also present Texaco's views as to what can be done to help overcome the present situation on both a short and long-term basis.

The present shortage of petroleum product supplies in this country has been caused by factors rooted in the total energy supply dilemma we are experiencing today. The obvious cause of this shortage is unprecedented demand and restricted supply. In Texaco's view, restrictions on free market action, both in the past and present, have increased supply problems at a time when U.S. crude oil production has leveled off and is now declining.

The evolution of this present shortage situation is traced as follows:

The imposition of price controls of natural gas was a major reason for our developing energy shortage.

Environmental restrictions on crude oil exploration became another step in this evolution process.

Air quality standards, another environmental restriction, have severely limited the use of coal and heavy fuel oil as a source of industrial energy. Industrial users turned to cheap supplies of natural gas, depleting the availability of that resource.

Then with regard to tax policies, congressional action in 1969 reduced incentives for exploration of crude oil in this country.

Tightening supplies of natural gas, caused by the increased demand for this cheap source of clean burning energy, forced industry to turn to low sulfur middle distillate fuel oil to help meet their air quality standards. The unprecedented demand caused by that move to distillates was felt on an industry basis this past winter as shortage in distillate fuel oil supplies forced supply limitations in many areas.

Past import control policies restricting crude oil imports became untenable as U.S. production of crude oil was leveling off. U.S. refineries were not able to run at rated capacity.

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When increases in refining capacity were planned despite the uncertainty of crude oil supplies, environmental restrictions again prevented this needed action.

The middle distillate supply problems during last winter's heating season have contributed to the gasoline shortage today as domestic refiners concentrated their efforts on middle distillate production which includes home heating oils and diesel fuels, with full knowledge of governmental authorities. This move to maximize distillate production necessarily reduced our ability to build up gasoline inventories for the peak motoring season this summer.

Finally, petroleum demand has increased steadily and substantially on a worldwide scale. This has resulted in a tight worldwide supply for crude oil and products. It has driven up the worldwide price of petroleum energy as a whole. Yet, despite this economic fact, price controls here in the United States have held down the price of petroleum products such as gasoline and distillate fuels, making it difficult to bid successfully in the free world market on a sound economic basis.

The long-term evolution of energy supply restrictions and demand increases has created a very definite energy supply problem today. The problem of gasoline supply is upon us now and will remain through the peak motoring season. Continuing problems of distillate fuel supply are forecasted for this winter's peak heating season.

Texaco has taken every reasonable action to provide additional gasoline supplies. Our refineries are operating at available capacity for gasoline and have been doing so since early spring. Yet gasoline inventories were not built up sufficiently because of the necessity to maximize distillate production. It is expected that Texaco's supply of gasoline in 1973 will be about the same as we had in 1972. With an anticipated increase of 5 percent or more expected in gasoline demand through the rest of the year, it may not be possible to supply all the gasoline that the customer may desire when he wants it.

As I reported to the Joint Economic Committee last week, we do not believe this tight supply situation, which is industrywide, can be overcome completely during the peak driving season. It is expected that various companies in various locations will experience gasoline runouts during this summer season. We anticipate, however, that such runouts will be primarily local in character and of relatively short duration.

Based on the assumption that we will be able to switch over to maximum middle distillate production in early fall again this year and import supplementary offshore supplies, Texaco anticipates that it will have approximately the same amount of middle distillate this coming heating oil season as it had during the past winter.

Regarding both gasoline and middle distillates, Texaco will endeavor to distribute its available supplies to our various customers on a basis as fair and equitable as possible, with due regard to contractual commitments, and in the light of all the circumstances that may exist at that time.

Historically, most of the gasoline and middle distillate fuel consumed in this country has been produced domestically. With today's supply/demand situation, there is a growing dependence on imports.

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The removal of import controls by the President last month will assist in supplying more gasoline and more distillate fuel if prices are adequate to encourage such importation.

We are faced with the fact, however, that motor gasoline meeting specification for American made cars is presently available in only limited quantities from foreign sources. With regard to these possible imports of gasoline, it is important to note that the east coast delivered price is higher than most companies can recover under price control.

Additionally, middle distillate fuels are in great demand in Europe. As I noted earlier, we cannot isolate the U.S. market today as has been done in the past since petroleum energy is in great demand worldwide.

As long as the price of distillate fuel is controlled in the United States, it will be increasingly difficult to obtain available supplies from abroad where price levels for distillates are higher in today's market.

To attract necessary imports of gasoline and distillate fuel supplies, the industry must be permitted to recover the additional costs of imported products. It is an economic fact of life that prices must be adequate to justify the many costly actions required to help alleviate the present gasoline shortage and foreseeable distillate shortage. Under the present system of price control, present pricing of these products is not adequate.

Relaxation of environmental standards relating to various fuels and specifications that have resulted in reduced production of gasoline and unprecedented demand for No. 2 oil, would assist in overcoming the shortage situation.

Texaco is not advocating the elimination of air quality controls that are necessary to the public health. Rather, we are simply restating a position taken repeatedly before governmental authorities on all levels that proper timing is necessary to bring about the changes required for environmental protection in order to prevent waste of our domestic energy supplies.

For example, the removal of lead from gasoline substantially reduces the volume of gasoline produced from a given quantity of crude oil and moreover produces a lower octane gasoline that gives the motorist fewer miles per gallon.

Further, we have seen how environmental restrictions have crippled our Nation's coal industry for lack of demand and reduced our natural gas supplies because of unrealistic pricing. Now we are feeling the pinch in our middle distillate and gasoline supplies.

A national gasoline conservation program and more efficient use of available supply would assist in overcoming the current problem. Such a program, which could be implemented this summer, might include car pools, tuneup programs, reduced highway speed, staggered working hours, and increased use of mass transit.

A conservation program would also benefit the middle distillate situation. A program aimed at conserving the use of electricity and heat in public offices, industries, and private homes would do much to help suppliers meet the demands this coming heating season.

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The era of cheap and plentiful supplies of energy is over and all of us must realize that the next 5 years and perhaps longer must be an era of energy conservation. We must seek a total commitment on the part of all Americans to conserve energy and to use available supplies efficiently.

Texaco plans to emphasize in its advertising the necessity for conservation programs and the need to make our available supplies of energy perform more efficiently and without waste.

In the long term, new refining capacity in the United States must be developed in order to provide for additional supplies of petroleum products.

Because of the inadequacies of the former oil import program, environmental restrictions, and difficulty in earning a reasonable rate of return, there are no new refineries under construction in the United States at this time. Although several refinery expansions have been announced since the President's message, substantial additional capacity is a necessity. Yet, to build a new refinery normally will take at least as much as 3 years after plans are completed and siting approval is granted.

The construction of new U.S. refining capacity will also serve to improve our Nation's ability to provide low sulfur residual oil which would be produced in new balanced refinery operations.

Up to now, the petroleum industry has been importing residual fuel oils because domestic refineries have been producing only minimal quantities of this product. In Texaco's case, we have been importing our low sulfur residual oils from the Caribbean where Texaco has recently completed a desulfurizer unit to extract sulfur from high sulfur crudes.

A long-term solution will also depend heavily on pricing policies that allow prices to be established in a free market and at adequate levels for U.S. petroleum companies both to buy gasoline and middle distillate products in the highly competitive world market, and to provide the incentive for building new refining capacity in the United States.

Price controls on petroleum products have done much to create the present shortage situation, and these controls should be relaxed. Adequate prices are necessary to encourage additional supplies of crude oil and products, and to generate sufficient capital resources to finance a larger portion of the expenditures required to maximize our energy supply.

Texaco welcomed the President's long-awaited message to Congress calling for a national energy policy. This policy does not offer the complete solution for our short-term energy needs. Rather, it is a strategy to develop needed energy resources as quickly as possible to insure that the present tightening of energy supplies is checked and that adquate supplies are available in the future.

The President also called for an investigation of the cost effectiveness of the air quality standards imposed by the Clean Air Act.

It has been estimated that substantial quantities of gasoline could be saved by very modest changes in the targets for air quality imposed by this act.

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Availability of middle distillate fuels for the 1973–74 heating season could be similarly improved by a relaxation of sulfur content restrictions. Such a relaxation as experienced in portions of this country this past winter has shown no noticeable degradation of air quality.

Texaco believes the problems in energy supply we are facing today can be solved. But a new climate of cooperation between government and energy suppliers must be molded to make the best use of our industry's proven enterprising spirit.

For instance, while the President's actions have recognized the need for additional refining capacity, the evolving national energy policy must also recognize the need for prompt action to facilitate the location of new refining capacity in this country. The approval of proper sites has been slowed down by a variety of overlapping Government regulations. Coordination of Federal, State and local authorities responsible for the various types of permits and licenses involved must be achieved to enable the construction of new projects.

In summary, on behalf of Texaco, I submit that a petroleum product shortage exists in the United States today. Continuous unprecedented growth in demand makes it extremely difficult to forecast the extent of these petroleum product shortages.

Generally speaking, however, availability of supplies for both gasoline and middle distillates appears to be at approximately the same levels as last year, therefore creating a lag behind demand growth. The extent and duration of this shortage will depend directly upon the increase in demand and actions taken to correct factors responsible for the shortage.

The short-term solutions are relaxation of price restraints, easing of environmental regulations and the introduction of conservation measures. The long-term solution involves prompt and favorable action on the principal points in the President's energy message.

It is quite clear that a shortage of petroleum energy exists in the United States today. At best, the situation will remain acute because of the long leadtime involved for increasing these supplies. Immediate and positive action on the part of Federal, State and local governments is necessary. This immediate action, together with full cooperation on the part of Government and industry will enable this Nation to take the first step toward regaining energy self sufficiency.

This is the end of my prepared statement, sir.

[The complete statement of Mr. Card follows:]

STATEMENT OF ANNON M. CARD, SENIOR VICE PRESIDENT, TEXACO INC.

My name is Annon M. Card. I am a senior vice president of Texaco Inc. in charge of strategic planning. I have been with Texaco for more than twenty-five years, primarily in marketing and planning assignments both in the United States and abroad.

I am pleased to have this opportunity to present to this subcommittee Texaco's views concerning the shortage of gasoline and other petroleum product supplies. We wish to keep the public and governmental authorities up to date on this increasingly complex shortage situation.

As you may know, I presented testimony on the gasoline shortage last week to the Joint Economic Committee. I will expand on that testimony today providing information on other petroleum products as well as gasoline. I will also present Texaco's views as to what can be done to help overcome the present situation on both a short and long-term basis.

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CAUSES OF THE SHORTAGE IN ENERGY SUPPLIES

The present shortage of petroleum product supplies in this country has been caused by factors rooted in the total energy supply dilemma we are experiencing today. The obvious cause of this shortage is unprecedented demand and restricted supply. In Texaco's view, restrictions on free market action, both in the past and present, have increased supply problems at a time when U.S. crude oil production has levelled off and is now declining.

The evolution of this present shortage situation is traced as follows:

The imposition of *price controls* of natural gas was a major reason for our developing energy shortage. These controls have kept the price of natural gas at an unrealistically low level for some 15 years while cost of exploration and development has increased sharply. There was no incentive for the development of new natural gas reserves.

Environmental restrictions on crude oil exploration became another step in this evolution process. Exploration in potentially productive areas of the U.S. have been limited by such restriction, thereby adding to the decline of U.S. crude oil production.

Air quality standards, another environmental restriction, have severely limited the use of coal and heavy fuel oil as a source of industrial energy. Industrial users turned to cheap supplies of natural gas, reducing the availability of this resource.

With regard to *tax policies*, congressional action in 1969 reduced incentives for exploration of crude oil in this country. The increased taxes paid by the petroleum industry since that time have served to hamper the ability of the industry to generate adequate capital resources for the necessary investment needed to cope with supply difficulties.

Tightening supplies of natural gas, caused by the increased demand for this cheap source of clean-burning energy, forced industry to turn to low sulfur middle distillate fuel oil to help meet their *air quality standards*. The unprecedented demand caused by that move to distillates was felt on an industry basis this past winter as shortage in distillate fuel oil supplies forced supply limitations in many areas.

Past *import control policies* restricting crude oil imports became untenable as U.S. production of crude oil was levelling off. U.S. refineries were not able to run at rated capacity. New refining capacity construction was halted for the most part by this import situation because of the uncertain long range availability of crude oil stocks.

When increases in refining capacity were planned despite the uncertainty of crude oil supplies, *environmental restrictions* again prevented this needed action. For example, plans for two major new refineries for the northern Atlantic coast area of this country, one in New England and one in the Middle Atlantic States, were shelved as a result of these environmental restrictions.

The middle distillate supply problems during last winter's heating season have contributed to the gasoline shortage today as domestic refiners concentrated their efforts on middle distillate production, which includes home heating oils and diesel fuels, with full knowledge of governmental authorities. This move to maximize distillate production necessarily reduced our ability to build up gasoline inventories for the peak motoring season this summer.

Finally, petroleum demand has increased steadily and substantially on a worldwide scale. This has resulted in a tight worldwide supply for crude oil and products. It has driven up the worldwide price of petroleum energy as a whole. Yet, despite this economic fact, price controls here in the United States have held down the price of petroleum products such as gasoline and distillate fuels, making it difficult to bid successfully in the free world market on a sound economic basis.

PROBLEMS WITH ENERGY SUPPLY TODAY

The long-term evolution of energy supply restrictions and demand increases has created a very definite energy supply problem today. The problem of gasoline supply is upon us now, and will remain through the peak motoring season. Continuing problems of distillate fuel supply are forecasted for this winter's peak heating season.

Texaco has taken every reasonable action to provide additional gasoline supplies. Our refineries are operating at available capacity for gasoline, and have been doing so since early spring. Yet, gasoline inventories were not built

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up sufficiently because of the necessity to maximize distillate production. It is expected that Texaco's supply of gasoline in 1973 will be about the same as we had in 1972. With an anticipated increase of five percent expected in gasoline demand through the rest of the year, it may not be possible to supply all the gasoline that the customer may desire when he wants it.

As I reported to the Joint Economic Committee last week, we do not believe this tight supply situation, which is industry-wide, can be overcome completely during the peak driving season. It is expected that various companies in various locations will experience gasoline "run-outs" during the summer season. We anticipate, however, that such "run-outs" will be primarily local in character and of relatively short duration.

Historically, middle distillates and gasoline production have been maximized alternately on a seasonal basis. Such seasonable adjustments have amounted to as much as 3% as refineries alternately built up inventories of middle distillates and gasoline in anticipation of peak seasonal demand. The need for inventory buildup is easily seen in demand patterns of certain areas of the country where as much as 80% of annual middle distillate fuel requirement has been during the winter months. The increased use of distillate fuel by industry and public utilities during the past two years, however, has created a greater demand for this product during off-season periods.

Based on the assumption that we will be able to switch over to maximum middle distillate production in early fall again this year and import supplementary offshore supplies, Texaco anticipates that it will have approximately the same amount of middle distillate this coming heating oil season as it had during the past winter.

Regarding both gasoline and middle distillates, Texaco will endeavor to distribute its available supplies to our various customers on a basis as fair and equitable as possible, with due regard to contractual commitments, and in the light of all the circumstances that may exist at that time.

SHORT-TERM IMPROVEMENT

Historically, most of the gasoline and middle distillate fuel consumed in this country has been produced domestically. With today's supply-demand situation, there is a growing dependence on imports.

The removal of import controls by the President last month will assist in supplying more gasoline and more distillate fuel if prices are adequate to encourage such importation.

We are faced with the fact, however, that motor gasoline meeting specification for American made cars is presently available in only limited quantities from foreign sources. With regard to these possible imports of gasoline, it is important to note that the east coast delivered price is higher than most companies can recover under price control.

Additionally, middle distillate fuels are in great demand in Europe. As I noted earlier, we cannot isolate the U.S. market today as has been done in the past since petroleum energy is in great demand worldwide. As long as the price of distillate fuel is controlled in the United States, it will be increasingly difficult to obtain available supplies from abroad where price levels for distillates are higher in today's market.

To attract necessary imports of gasoline and distillate fuel supplies, the industry must be permitted to recover the additional costs of imported products. It is an economic fact of life that prices must be adequate to justify the many costly actions required to help alleviate the present gasoline shortage and foreseeable distillate shortage. Under the present system of price control, present pricing of these products is not adequate.

Relaxation of environmental standards relating to various fuels and specifications that have resulted in reduced production of gasoline and unprecedented demand for No. 2 oil would assist in overcoming the shortage situation.

Texaco is not advocating the elimination of air quality controls that are necessary to the public health. Rather, we are simply restating a position taken repeatedly before governmental authorities on all levels that proper timing is necessary to bring about the changes required for environmental protection in order to prevent waste of our domestic energy supplies.

For example, the removal of lead from gasoline substantially reduces the volume of gasoline produced from a given quantity of crude oil, and moreover produces a lower octane gasoline that gives the motorist fewer miles per gallon.

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Further, we have seen how environmental restrictions have crippled our Nation's coal industry for lack of demand, and reduced our natural gas supplies because of unrealistic pricing. Now we are feeling the pinch in our middle distillate and gasoline supplies.

A national gasoline conservation program and more efficient use of available supply would assist in overcoming the current problem. Such a program, which could be implemented this summer, might include car pools, tune-up programs, reduced highway speed, staggered working hours, and increased use of mass transit.

A conservation program would also benefit the middle distillate situation. A program aimed at conserving the use of electricity and heat in public offices, industries and private homes would do much to help suppliers meet demands this coming heating season.

The era of cheap and plentiful supplies of energy is over, and all of us must realize that the next five years, and perhaps longer, must be an era of energy conservation. We must seek a total commitment on the part of all Americans to conserve energy and to use available supplies efficiently.

Texaco plans to emphasize in its advertising the necessity for conservation programs and the need to make our available supplies of energy perform more efficienlty and without waste.

LONG-TERM SOLUTIONS

In the long term, new refining capacity in the U.S. must be developed in order to provide for additional supplies of petroleum products.

Because of the inadequacies of the former oil import program, environmental restrictions, and difficulty in earning a reasonable rate of return, there are no new refineries under construction in the United States at this time. Although several refinery expansions have been announced since the President's message, substantial additional capacity is a necessity. Yet, to build a new refinery normally will take at least as much as three years after plans are completed and siting approval is granted.

The construction of new U.S. refining capacity will also serve to improve our Nation's ability to provide low sulfur residual oil which would be produced in new balanced refinery operations.

Up to now, the petroleum industry has been importing residual fuel oils because domestic refineries have been producing only minimal quantities of this product. In Texaco's case, we have been importing our low sulfur residual oils from the Caribbean where Texaco has recently completed a desulfurizer unit to extract sulfur from high sulfur crudes.

A long-term solution will also depend heavily on pricing policies that allow prices to be established in a free market and at adequate levels for U.S. petroleum companies both to buy gasoline and middle distillate products in the highly competitive world market, and to provide the incentive for building new refining capacity in the United States. Price controls on petroleum products have done much to create the present shortage situation, and these controls should be relaxed. Adequate prices are necessary to encourage additional supplies of crude oil and products, and to generate sufficient capital resources to finance a larger portion of the expenditures required to maximize our energy supply.

A NATIONAL ENERGY POLICY

Texaco welcomed the President's long-awaited message to Congress calling for a National Energy Policy. This policy does not offer the complete solution for our short-term energy needs. Rather, it is a strategy to develop needed energy resources as quickly as possible to insure that the present tightening of energy supplies is checked and that adequate supplies are available in the future.

The President also called for an investigation of the cost effectiveness of the air quality standards imposed by the clear air act.

It has been estimated that substantial quantities of gasoline could be saved by very modest changes in the targets for air quality imposed by this act.

Availability of middle distillate fuels for the 1973–1974 heating season could be similarly improved by a relaxation of sulfur content restrictions. Such a relaxation as experienced in portions of this country this past winter has shown no noticeable degradation of air quality.

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COOPERATIVE CLIMATE NEEDED

Texaco believes the problems in energy supply we are facing today can be solved. But a new climate fo cooperation between government and energy suppliers must be molded to make the best use of our industry's proven enterprising spirit.

For instance, while the President's actions have recognized the need for additional refining capacity, the evolving national energy policy must also recognize the need for prompt action to facilitate the location of new refining capacity in this country. The approval of proper sites has been slowed down by a variety of overlapping government regulations. Coordination of Federal, State and local authorities responsible for the various types of permits and licenses involved must be achieved to enable the construction of new projects.

SUMMARY

In summary, on behalf of Texaco, I submit that a petroleum product shortage exists in the United States today. Continuous unprecedented growth in demand makes it extremely difficult to forecast the extent of these petroleum product shortages. Generally speaking, however. availability of supplies for both gasoline and middle distillates appears to be at approximately the same levels as last year, therefore creating a lag behind demand growth. The extent and duration of this shortage will depend directly upon the increase in demand and actions taken to correct factors responsible for the shortage.

The short-term solutions are relaxation of price restraints, easing of environmental regulations, and the introdutcion of conservation measures. The long-term solution involves prompt and favorable congressional action on the principal points in the President's energy message.

It is quite clear that a shortage of petroleum energy exists in the United States today. At best, the situation will remain acute because of the long lead time involved for increasing these supplies. Immediate and positive action on the part of Federal, State, and local governments is necessary. This immediate action, together with full cooperation on the part of government and industry, will enable this nation to take the first step toward regaining energy self-sufficiency.

This is indeed a matter involving the national security of the United States.

Senator McINTYRE. This is one thing that really bugs me. I have had a lot of hearings and have had representatives like yourself who are very knowledgeable in the oil industry and all of its ramifications and I have to agree, as I am sure Senator Proxmire agrees, that the environment and the increasing number of automobiles and travel have all contributed to this shortage and the demand.

But many, many, many times your representatives and even some of you have been here, we have asked this question, and you have repeatedly underestimated the demand that was coming up in the following year.

Now, perhaps as you just said, Mr. Card, the petroleum shortage exists, continued and unprecedented growth and demand makes it extremely difficult.

Would you not confess that time and time again you gentlemen and others like you in the oil industry have failed to make an intelligent estimate or even a close estimate of what the demand was going to be in the upcoming year?

Mr. SELLERS. I would like to respond to that, Mr. Chairman.

For approximately 47 years, those errors were on the other side, and we anticipated greater demand than in fact, existed.

We expanded production, refining and distribution capacity beyond what in fact was called for by the next year's expansion in demand. We consistently had excessive capacity. The only things

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that have changed in the last 2 or 3 years have been these: First, the economics of the industry in the past 2 or 3 years. This is from Forbes' magazine of January, as they categorize the energy group, which is predominantly oil companies, a total of 28 oil companies.

In the then latest 12 months figures available to them, and that was the 12 months ended September 30, 1972, this group of companies had an average rate of return on capital of 6.5 per cent.

Now, according to the Wall Street Journal yesterday morning, Government bonds are selling at 6.57 per cent yield. In the past 3 years, we have not had the economic capability or incentive to provide those additional facilities.

Second, in the past 12 to 18 months, but especially last winter, we have seen demands thrown on liquid fuels, which we did not anticipate and these were thrown on by a combination of gas delivery ability caught short sooner than we had anticipated, therefore, utilities and industrial users switching to liquid fuel when they could not get gas and by the environmental requirements of moving liquid fuels in substitution for coal and then moving low sulfur materials in substitution for high sulfur materials, throwing a totally unanticipated load on the distillate fuel segment.

Mr. RAWL. I will pick up and expand briefly on this. I will not talk of the supply situation. I think Mr. Sellers did a fine job of that.

With regard to the question of the environmental controls, as you gentlemen know, these principally up to now, have been brought about by individual States. As you know, Senator, up in your part of the country for a number of years now starting probably in New Jersey, New York—several years ago, we got into increasingly more restrictive sulfur emission controls on heavy fuel oil and distillates.

Certainly these individual State controls have pretty well put coal out of the utility business up in that part of the country and have, as Mr. Sellers suggested, greatly increased the need other fuels which has fallen into the area of low-sulfur fuel oil and distillate fuels, which in turn impacts on the other types of things: Diesel, heating oil, things of that nature.

That has been a very serious thing. I would say it is going to be extremely difficult for us to make an intelligent estimate or a guess as to what demand is going to be as long as we have 50 separate entities developing on their own within certain broad guidelines put out by the Clean Air Act and other things by the Federal Government—it is very difficult to assess the impact on the industry.

In terms of motor gasoline, I think we are dependent in that regard on the efficiency of the engines developed by Detroit in response to their problems in terms of clean engines and so forth.

I will have to agree with you, we have not done a very good job maybe but I would like to make the point that it should be recognized that it is extremely difficult to do such a job when you have it developing from all points of the compass.

Senator MCINTYRE. As a layman contending with the oil industry, I have been irritated by your underestimation of demand and then this holding to the mandatory quota system with the consequence always somebody has to cry "Wolf" in New England or in the Midwest about shortages that finally hit us last winter.

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In all the things you want to blame, you never take it upon yourself to say "mea culpa" a little bit, because I think you are involved in a lot of the mistakes that we are now contending with.

After all, you gentlemen are tops in the industry, so I just wanted to tell you how I felt about your continual underestimating of the demand and the result was that we in New England and the Middle West had to take a deepth breath and hope for a warm January, which thank God, we got this year.

Mr. Card, I want to congratulate you, too. It would be very nice to see Texaco's advertising start to talk about the conservation of energy that I have been guilty, along with other people, of abusing. I think it would be great instead of all this promotion of "Buy More." I do not know what you fellows do when you are marketing, but I am sure you get a better price if you buy more than if you buy less.

I am going to stop there, because I want to; Senator Proxmire.

Senator PROXMIRE. I want to thank you very much for an enlightening presentation. It has been most helpful to get your viewpoints.

Would you spell out for me, Mr. Sellers, the effect, as you understand it, of phase III as it has been presently promulgated on the availability of gasoline this summer? As I understand it, there is a limit on the overall increase in prices. You can make increases in individual product prices. What does this mean, as you see it, on the likelihood of a rise in gasoline prices?

To what extent will the limitation in that rise contribute to the shortage and necessitate some kind of rationing of the product either by you or by the Government?

Mr. SELLERS. Senator, I am sure you are aware that the specific rules have not yet been promulgated by Cost of Living Council.

So, our assessment of the impact at the moment—I will speak first to our own situation and then give you my judgment of how it applies to some others in the industry.

We have understood that the basic rules for calculation will be similar to those used in phase 2. This is the type of calculation that we have been using and operating under.

As you indicate, it gives freedom as far as increases on individual products but places an overall ceiling on us.

This ceiling within practical limitations as far as we are concerned puts a maximum limit on sales prices of gasoline—I will use a single example, in approximate numbers—in the order of 16 cents a gallon on our sales out of a terminal in New York Harbor, this works back through our overall average products but this is approximately where we come out.

To buy gasoline and import it today will cost us in the area of 22 to 25 cents a gallon, and we will not get a quality of product that we would ordinarily be willing to sell.

Senator PROXMIRE. What is this translated in terms of cost to the consumer at the pump?

Mr. SELLERS. The pump price of gasoline in that area is now in the range of—I am talking of regular gasoline—in the range of 35 to 39 cents a gallon.

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So, on imported material, if the terminal cost of one is 16 cents and the other is 22 cents, you are talking of 6 cents a gallon or roughly 15 percent difference.

Senator PROXMIRE. So you would expect 6 cent a gallon or a 15 percent increase as possible, recognizing of course that you cannot project these things precisely.

As you say, you have not gotten the regulations promulgated.

Mr. SELLERS. As I mentioned, we are working with a number of private brand or independent marketers who have imported quotas to bring gasoline in without the security fee but do not have the facilities to physically handle imported material, trying to get them into a position where we will physically handle the material and deliver it through our terminals and then deliver back to them at the points where they need it.

Now, if they are faced with the position of having to pay 22 cents a gallon and they are in a position of having to raise their pump price while we and others are not able to raise prices to our brand of dealers, our brand of dealers are going to sell gasoline until they run out and the end marketers that we are serving with our domestic product are going to sell gasoline until they run out, and the independent marketer who imports his is going to be left until everybody else runs out. His price is going to be too far above that.

One fallacy in the current handling of the gasoline imports, if we and others like us bring in, I will say, 4 percent of our product and pay 22 cents a gallon for it and average that price in, overall price increase is going to be a half cent a gallon rather than 6 cents a gallon on this one particular volume.

Senator PROXMIRE. So, you see a range of up as much as perhaps 6 cents a gallon this summer. I would like to ask Mr. Card, and Mr. Card, I may surprise you and maybe disappoint you when I say that I agree with a great deal of what you said.

I find a lot of wisdom in it and a lot of good sense. I disagree with some of it. When you look at this kind of a situation, here, the only answer really is higher price. That is the way our system works, if we have a shortage of supply in relationship to demand, the price goes up. It is a free system.

We adjust to it. We talk about telling people to get in the car pools and not to drive as much. You can exhort them in your advertising as much as you want. They will not pay any attention to it. If you increase the price of gasoline, they will respond in a hurry. They will conserve energy if you charge enough for it. That is the way a free economic system works to the best of my judgment.

No matter how you ration this, it is not going to work, especially when the shortage is not short term; the shortage, as you testified, will be worse in 1974 than in 1973 and worse in 1975 than in 1974. So, it is ridiculous to adopt a short-term rationing system.

It would be fine if we knew we were going to have an abundance of supply or at least a correction of the situation in a few months or in a year or so. We do not have it. So, I think the argument is very powerful, I might say almost devastating, that the price is the answer.

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There are a couple of problems, of course, in price, very serious political problems and social problems. One is, if you let the price go up—and going up 6 cents does not bother me, but I have heard a lot more than that. I have read stories it might be 50 cents a gallon, 75 cents a gallon, a dollar a gallon—very high in Europe, and it could be higher. This is discrimination against people with low incomes and people who rely on their car to get to work.

This is discrimination against the people with low incomes generally. But on the other hand, you have an enrichment of oil companies.

Now, the specific you gave—I have not had a chance to check it out, you may be right—I don't know if you gave it, but one of you gentlemen suggested 6½ percent return on invested capital in the industry and you compared it with bonds and that is disgracefully low.

You cannot have an operation at 6.5 percent return for very long. Certainly if the price were allowed to go up now, I am sure your return would be enormously increased. So, you see the political problem. It looks like a reverse Robin Hood situation. Then there is one other complicating factor. Whether we like it or not, I think the environments are going to win, and they should win, and that is because we just have to find a way of stopping this pollution of our environment, and the extent to which we project this demand for gasoline and more automobile traffic and more affluent living on our part is going to pollute our environment more and more.

Of course, higher prices would help there, too. It would mean that there would be less pollution because people would not drive as much and they would conserve in all kinds of ways.

Can you help me on how we get an appropriate political and social solution to this problem? The economics are so clear and convincing, where the social effect is preverse and maybe unjust. What would you suggest? Would you let the free market take over, or would you suggest that you have to do this a little more drastically?

Mr. CARD. I would be glad to comment on that, sir. I mentioned three basic points for the short-term solution.

You have touched on a couple of them. I will take the one you mentioned first, that is dealing with the environmental restrictions.

We are not in disagreement with the need to improve the environment. We are suggesting that we make some modest relaxations in the restrictions and in the timetable called upon and this will do considerable to make available additional supplies practically immediately, both of gasoline and of middle distillates and these are the two critical parts, the heating oil and gasoline.

Senator PROXMIRE. I am going to reject that.

Maybe I am wrong in doing it. It is a gut feeling. I do not want to degrade the environment any more. I feel very strongly about that. So, give me the answer on the assumption I cannot back up your suggestion on the environmental matter.

Mr. CARD. I do not agree, I think there are some practical steps that have been proven that can be taken—were taken this past winter that did help.

The next point has to do with the price control. Yes, I think free market action is the answer to this. And I think this is very essential

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that the industry be permitted to have adequate prices in order to justify these actions that they would have to take to make more supplies available.

Then the third one has to do with conservation and I do think there is a way—in the short term—that conservation can make available more supplies.

We can use better what we have and therefore slow down the demand.

I think that those three points——

Senator PROXMIRE. I do not want to impose on the other committee members but how could conservation work, absent a sharp increase in price?

Mr. CARD. Conservation will not make available more supply; it will make the supplies we have go further. This is the point. For example, the statistics are well documented on what speeds on the highways result in as far as consumption of gasoline.

We know that. The other means, the car pools. Now, this is something that could come about, some emphasis on car pools, the conservation measures that I outlined.

These measures of conservation are very practical.

Senator PROXMIRE. I think they are practical if you make them effective by letting the price go up. But absent that, I think exortation is unlikely to have much effect.

Mr. CARD. Free market action and adequate prices would certainly be a step in the right direction.

Senator PROXMIRE. Thank you, Mr. Chairman.

Senator MCINTYRE. In talking about the prices here, let us let the record show that U.S. Oil Week of April 30, 1973, states percent of gain over net income, the first quarter of last year, Exxon, up 43 percent and in the first quarter of last year their profits were $508 million.

Citco, up 17.4 percent. I do not mind your profits.

Mr. RAWL. Those are relative figures, Senator. A low first quarter, 1972——

Senator MCINTYRE. Let me ask you a few questions right down the line. I want to limit myself to ten minutes.

Each of you—what is your position with regard to whether the President should immediately implement the authority granted to him in the Economic Stabilization Act to allocate petroleum products?

Some of you, your statements are directed to that.

Mr. SELLERS. I would hope that the shortage this summer will not be sufficient to necessitate overall rationing.

I think it will get into an impossible situation. I believe that local shortages that may occur should be dealth with by the lowest governmental level that is in a position to do so. This may often be the State. There may be some circumstances in which the Federal Government would have to step into the act.

I hope that the situation this year will not be that serious.

Senator MCINTYRE. I do not think I meant to infer rationing as such. I am talking about allocation.

Senator MCINTYRE. You do not understand the distinction?

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I was just checking with my staff to see if they were the same thing. He said, no; allocation would mean to be sure that hospitals or vital industries receive an adequate amount of oil as opposed to, for instance, the luxury driver.

Mr. SELLERS. That might be allocation to the hospital, but to the guy you took it away from, it would be rationing.

Senator MCINTYRE. The next one.

Mr. CARD. Responding to your question, sir, we do not believe that any type of mandatory controlled program or rationing is called for. We do believe that doing the three things I mentioned, emphasis on conservation, relaxation of price controls, and relaxation of the environmental restrictions and timetables would do much to help overcome the current shortages that exist.

Then as far as dealing with available supplies, we would hope that the suppliers could be encouraged to supply in proportion to the 1972 requirements.

Senator MCINTYRE. Mr. Rawl.

Mr. RAWL. Yes, sir, as I mentioned in my statement, we feel about the same way, that the situation will not call for rationing in terms of setting priorities for essential human needs. We would feel that the Government should go ahead and get something in place and get it understood in case it were necessary.

We have taken the position publicly that we will distribute our products to our existing customers on the basis of recent participation in each one of these customer groups and product lines, and fairly among those customers.

So, we are saying it is obvious that there ought to be contingency plans in place. There probably ought to be hearings on them so everyone understands exactly how they work.

It is an extremely complex situation. If mishandled, it could result in worse problems, we think than we might have otherwise.

Senator MCINTYRE. Going to Mr. Sellers, then Mr. Card and Mr. Rawl, is my understanding correct that your impression is that the new tariff situation implemented on May 1 will not have any appreciable effect on petroleum product shortages over the next few years and particularly with regard to gasoline and home heating oil?

Mr. SELLERS. If given the freedom for the material that is available from foreign sources to be brought in without any physical restrictions, the missing link now is the ability of the marketplace to adjust to support the prices that are now called for in foreign markets.

Mr. CARD. I think that the degree that it will help will depend on the relaxation of price controls, because it is a fact that prices are higher in Europe and we will have to depend upon supplemental supplies from Europe for both heating oil and gasoline.

These prices are substantially higher than can be recovered in the United States. This was experienced in heating oil during the past heating season and it will be experienced this coming heating season, which will retard the flow of those products to the United States.

So the degree that this will help, this new important program, will depend to a great extent, of course, upon the availability which is

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limited also of the products in the first place. They are limited from availability standpoint. But a further limitation, in my judgment, will be because of price controls in the United States.

Senator McINTYRE. Mr. Rawl.

Mr. RAWL. I certainly would agree that pricing flexibility would help a great deal. Obviously, after 2 to 3 years when significant expansions can be accomplished in this country in refinery capacity that it will help a great deal.

In the short term it will probably help modestly the volumetric control, if we can determine how to work this in the economy.

Senator McINTYRE. Mr. Sellers, in your statement to the committee, you come down pretty hard on this problem that we were dealing with yesterday where we were talking—independent people were coming in and saying they were being cut off. In the summation, I heard this before, you say that probably if we do lose some of these independents, these little guys, we are going to have a better marketing system as a result.

Mr. SELLERS. What I said was not that if we lost some of the independents. What I said was that there has been much comment over a period of many years by many parties that there were too many service stations without distinction as to whether they are private brands or major company brands.

My statement was that this is the area where the inefficient service stations can be eliminated and help every aspect of the Nation, and more major brand stations will be eliminated, in my judgment, than private brand stations.

Senator McINTYRE. Yes, sir.

You conclude after discussing the question of the impact of shortages on competition, in your next to the last paragraph by saying "From many standpoints, particularly distribution efficiency and land-use economics, I am convinced the Nation will be well served by reductions in marketing overcapacity and inefficiencies."

So, in some respects this could be considered kind of a shakedown, and some of the weaker of those in the competitive field are going to drop by the wayside and the result will be a better marketing situation, is that right?

Mr. SELLERS. Yes, sir.

Senator McINTYRE. I am going to take this up here. I do not know how to answer questions like this that are occurring all across the country.

Here is a letter from my own State dated May 7. It is a pretty sad story now. I do not know whether they are poor distributors or poor marketers or what. But they have been in business 39 years, the largest independent jobber in New Hampshire, and they are done. They are done—37 retail service stations. They started out with Phillips Petroleum and I think they are going to have a few words to say before we close here today.

This letter simply says to this Senator, I do not know what has happened but I cannot get any more oil and I am bankrupt. It may be as you say, it may be that this is a good one that just got caught. But it is pretty hard for those of us who represent those people.

Senator Taft.

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Senator TAFT. Thank you very much. There is an article in the morning paper this morning that the administration is preparing to put in emergency fuel allocation plan into effect very shortly.

The plan is apparently expected to be a voluntary one, setting out guidelines for allocation to meet vital needs.

I would like to have your opinion as to whether you think a voluntary plan of that kind will work.

Mr. RAWL. Senator, I will be glad to talk to that point. I just read the same article myself. I have not had time to think about it.

Now, I guess I would have to know more details than we know right now about it to comment very intelligently about it.

However, I do see a problem here when he talks about I guess essential needs and a voluntary program. I think it would be very difficult for any company, large or small, to set its own priorities as to what are critical needs in the case of short supply, as to whether we are talking about a farmer in the Midwest or a farmer on the east coast, you know the kinds of problems you get into, and I think that regulatory agencies or governments really have to make those kinds of decisions.

I do not like the idea of a mandatory program but also I see the problem with the voluntary program in that we have, for example, in the short-supply situation contract obligations to existing customers.

If this voluntary guideline would say you should take on some new customers, it would give me severe risk and difficulty from the legal standpoint to arbitrarily, let us say, abrogate some contracts with existing customers. This is the kind of a problem——

Senator TAFT. What percentage of your output is on a contract basis to existing customers?

Mr. RAWL. The way we are looking at it right now, is our total output—because of the tight supply situation—has to go to the existing customers.

Senator TAFT. 100 percent?

Mr. RAWL. 100 percent. Even though some of them may not have a written document that says we owe it to him, we feel that obligation as a company and have set such a policy.

Senator TAFT. How many do you have written documents with?

Mr. RAWL. Sir, I really do not have that number in mind. It is a difficult problem. In terms of distillates, it would probably be most of our customers.

In terms of gasoline, contracts with service station are different kinds of contracts, but they are contracts. So, a very small percentage would not be covered by some contract, very small.

Senator TAFT. Probably from both the legal and the practical point of view, if voluntary guidelines are set up and they are truly voluntary, you are going to have both legal and economic factors working against your complying with those guidelines if they require taking on of new customers or if they require allcoation to customers on some past basis, and there has been some change by contractor practice recently in your distribution?

Mr. RAWL. Yes, sir.

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I can see the complication. If this were a voluntary program that I should treat my existing customers and past customers on a proportionate basis, if that is what it says, I will not have any problem with that.

If it tells me to put product into some situation where we have not been supplying, then all of a sudden I run into the kind of problem you hve referred to and what that does to the existing customers.

We have to see the guidelines, I guess but I can see some complications in a voluntary program.

Mr. RAWL. I am not sure of that, either, depending on what that said, too.

Senator TAFT. It would give you a legal outlet, you would have the possibility of defense.

Mr. RAWL. Legally it would help, yes. Whether or not it was properly conceived and thought out and whether or not it would cause more problems than it solved, I guess we would have to see what the program was before we could comment on that.

Senator TAFT. Do you other gentlemen have anything to comment on that?

Mr. CARD. Yes.

I see great danger in any mandatory control progrm. I think it, in fact, could result in a lessening of supply. As far as the comment on a voluntary program——

Senator TAFT. Why would it lessen supply? I could see how——

Mr. CARD. It would depend on how it was administered, but the regulations and the experience that we have had, the industry has had with mandatory regulation—take natural gas as an example—we know what has happened, sir, and in the time frame we are talking about here, I would certainly say this, that, if the program envisioned does deal with providing customers served in 1972 on some basis, proportionate to the 1973 avails—it seems, as I mentioned earlier that suppliers should be encouraged voluntarily to supply on a proportionate basis 1972 customers in relation to their 1973 avails—if this is what is meant, it seems to me at this stage it would be much more practical and certainly all that would be called for under today's circumstances.

I think, if that is the interpretation, it would be much better to consider that instead of any kind of mandatory control program.

Senator TAFT. I notice a statement in your testimony, Mr. Card, with regard to the removal of lead from gasoline cutting down the supply. Could you elaborate on that? Is the lead already in the gasoline or are you talking about present refining processes?

Mr. CARD. Yes, sir, I would be glad to comment on it. As you know, by July 1, 1974, all the service stations in the United States averaging 200,000 gallons or more for the year must have one grade of no-lead gasoline, and 60 percent of all stations, regardless of volume, are required to have one grade of no-lead gasoline.

This is in fact forcing another grade of gasoline into the industry, into the country.

It does tie up additional inventories and supplies. Now, that is from the standpoint of supply. Whereas we have seen a year's delay as far as automobile fanufacturers are concerned, there has been

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nothing yet to delay the implementation of this legislation on the petroleum industry.

This is the kind of relaxation that we have been talking about. We think this certainly is called for, a relaxation on this.

The other thing, though, is a technical matter. It is simply the requirements in refining procedures and the technology that does require more crude oil, more running of material to make the same number of gallons when you have no lead gasoline.

Another step further——

Senator TAFT. You add lead to gasoline, do you not?

Mr. CARD. That is a very small amount as far as the lead is concerned, as to the total volume.

Senator TAFT. But there is not any basic lead in crude oil, is there?

Mr. CARD. You have to add the lead in the manufacturing process, this is correct.

Senator TAFT. How does that reduce the volume, if you put it in——

Mr. CARD. It has to do with your total octane pool. We are getting into a technical discussion here. I will be glad to get the amount per gallon or per barrel, and this has been documented.

Then the other part of this has to do with the miles per gallon that this new gasoline will give in the new automobile.

Senator TAFT. I understand. That is something else again.

But you are talking about volume of gasoline produced in your statement?

Mr. CARD. This is right.

I do not have the complete technical outline of this but I can get this and furnish it and would be happy to do so.

Mr. SELLERS. Senator, I might add one specific example of this. In going to unleaded gasoline, the way that we in our refinery will meet the octane requirement from the present operations over to an unleaded gasoline operation is to remove from the gasoline pool approximately 10,000 barrels a day of material which is low octane.

We are able to use it in gasoline now because we use the lead to bring the octane level up. In cutting out lead, we back out approximately 10,000 barrels a day of material which in turn would go into some other petroleum product, either petrochemical feed stock or jet fuel.

Senator TAFT. I get you. Thank you very much.

Senator MCINTYRE. Mr. Rawl, why have you refiners been allowed to import finished products—isn't this in effect an encouragement to build overseas refineries? On top of that, in September of 1971 you appeared before the subcommittee on Small Business that I chaired at that time and you strongly testified against any program to allocate the importation into this country of any finished product. Here you are enjoying it, and we were trying to get it for the independent terminal operators in New England.

Here you are on the other side. Why should you be allowed to import finished products.

Mr. RAWL. To satisfy the market.

We are not enjoying it. You know the finished products, gasoline, for example, is 53 cents a barrel currently. With the fee it goes up to

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63 cents a barrel. Distillates will increase in the fee up to same level and so will heavy fuel.

We are not enjoying this. These fees, however, under the new program are such that they will clearly switch the economic from building refineries offshore to expanding refineries on shore if sites become available or certainly, if you have room to expand refineries.

You will recall that at the hearing you had 2 years ago, 1971, as I recall, September, we were talking about the heating season 1971–72.

My comments then were that it was our opinion that the industry clearly had sufficient domestic refining capacity to produce sufficient heating oil to supply the market during that heating season, which it did. Along those lines, however, I also cautioned at the time that importation of products without any other changes in the import program—and there have been other changes—would result in just, as we put it, exporting further refining capacity expansions.

Senator McINTYRE. I want to thank you gentlemen for coming here today. I appreciate your coming, realizing it was difficult for you at this particular stage in the industry.

We call as our next witnesses Mr. G. J. Morrison, vice president of marketing, Phillips Petroleum Co., and Mr. Thomas M. Hennessy, president of the Getty Oil Co., Eastern Operations, Inc.

Will you please come to the witness table, gentlemen. We will proceed with Mr. G. J. Morrison followed by Mr. Hennessy.

We have your statement and they will be included in full in the record.

Anywhere that you can condense your statement, that will be fine but I want you to feel that you have a full opportunity to testify and state your case.

STATEMENT OF G. J. MORRISON, VICE PRESIDENT, MARKETING, PHILLIPS PETROLEUM CO., AND THOMAS M. HENNESSY, PRESIDENT, GETTY OIL CO., EASTERN OPERATIONS, INC.

Mr. MORRISON. Mr. Chairman, my name is G. J. Morrison, vice president, marketing, Phillips Petroleum Co.

Getting into the text of my statement:

What are the causes behind this gasoline shortage? The gasoline shortage was caused by four prime factors: Insufficient refining capacity in the United States. For the past several years new refining capacity has lagged well below the increase in demand for finished petroleum products. Not a single major refinery is under construction at present.

The prime reason for the failure of refining capacity to keep pace with demand is the low rate of return on employed capital in the refining, distribution and marketing segments of the petroleum business and the high costs of building new capacity. The rate of return for our company for these functions combined was only .17 percent in 1971 and 1.9 percent in 1972 on capital employed of approximately $1 billion.

Another reason for lack of new refining capacity has been difficulty of securing permits to build refineries because of environmental problems.

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A shortage of crude oil supplies, particularly the light common low-sulphur crude needed by most U.S. refineries to produce maximum gasoline yields.

Here, again, the unacceptable rate of return on investment has held crude oil exploration to levels well below that required to find new supplies to meet our domestic requirements.

Increased gasoline demands due to more automobiles being on the road than ever before in our history and being driven more miles.

Also, the less efficient engines in the last-model cars which require more fuel to travel the same number of miles as the older model cars.

A part of this inefficiency is created by the antipollution devices with which these cars are equipped. Automotive motor fuel usage increased 6 percent in 1972 over 1971 and this rate of increase is continuing. The Bureau of Mines predicted that May, 1973 consumption would be up 6 percent from May, 1972.

Increased demand for light distillate fuels.

The shortage of natural gas in our country has caused many industrial consumers to switch from gas to distillate fuels. Environmental regulations which prohibit the use of coal and high sulphur residual fuels in many areas of our country have also caused a switch to the lighter heating oils.

Along with these added demands, extremely cold weather in much of the United States from October to December 1972 caused requirements for heating oils to exceed industry expectations.

Therefore, in order for the petroleum industry to supply the heating oil requirements of home, hospitals, schools, and other regular users of this product last winter, the industry had to produce a greater volume of distillates than in previous years. To produce this additional product it was necessary to reduce gasoline production by a like amount. As a result we were unable to build gasoline stocks to levels required to meet the heavy summer gasoline demand.

2. The extent of the effect of the shortage will have on the Nation?

Short-term, we must realize that the first effect is a reduction in consumption, either voluntary or otherwise. We can easily reach the position where consumer rationing might be necessary. A shortage of fuels for the transportation industry would have far-reaching effects on other industries, the products and commodities of which rely on transportation. Our defense system could be seriously imparied. Last but not least, a shortage of petroleum products could have a devastating effect on agriculture resulting in food shortages, higher food prices, and because less food would be exported, a more unsatisfactory balance of payments position.

Long term. By 1975 we will be 1.5 million barrels per day short of crude processing capacity or the equivalent of 10 new 150,000 barrels per day refineries. This is a shortage of approximately 12 to 15 percent. Further, we will need to construct 5 new 150,000 barrels per day refineries each year for the years 1976 through 1985 to keep pace with the demand.

We will necessarily have to import much greater amounts of petroleum and this will have a serious effect on our balance of payment position. The present cost of imported petroleum is $4 billion annually, this could escalate to $30 billion by 1985.

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Senator McINTYRE. I am going to have to interrupt you at this point in order that I may go to the floor to cast a vote.

[Recess.]

Senator McINTYRE. The committee will come to order.

Mr. Morrison, I am sorry for the interruption.

Mr. MORRISON. Thank you.

I will start with question 3: What impact will the shortage have on competition within the industry?

We believe that all segments of the industry are going to continue their intensive competition. There will be less emphasis on promotions such as trading stamps, games and giveaways, but competition will increase as the dealers with reduced amounts of gasoline to sell must compensate by increasing their income from their other sales of tires, batteries, accessories and services. We believe competition to secure the best dealers and obtain a viable share of the market will continue at an increased pace because we, and no doubt all of our competitors, do not intend to surrender our customers and market position.

Competition to discover domestic and foreign production and the search for foreign supplies of crude and refined products will be at an increased rate provided the return on capital employed will justify the enormous expenditures.

Permit me to supplement my written statement at this point with a comment.

The press has referred to a letter to the President, President Nixon from a group of Senators, urging him to start allocating petroleum products to keep independents from going out of business.

The letter was quoted as saying "Independent stations represent a significant amount of competition in this industry."

I hope that this well-organized and vocal group of large chain marketers does not cause us to disregard the interest of the many more and much smaller independent businessmen who are the individual dealers, consignees and jobbers, selling Phillips and other major brand products. I trust that no one is asking the President to allocate petroleum products to the so-called independent marketer or chain operator of nonmajor brand outlets at the expense of the small independent business handling major products.

Senator McINTYRE. I do not know if we have time for you to instruct me on how this oil industry is set up. I do not think we have. What you are saying is, there are people that see—let's take a brand that I used to have, a friend who always bought it. He would go out of gas if he could not find Cool Motor, predecessor to Cities Service.

Do you mean that there are dealers who are independent, they own their own stations, they are not beholden to the company for some sort of a 100 percent financing or leasing, they are independent in every sense of the word except they buy in your case Phillips Petroleum Gasoline?

Mr. MORRISON. He could be a dealer leasing a station from us, he could be a dealer leasing a station from another individual, or he could be a dealer who owns his own station and buying a branded product from us or some other major company.

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He has an investment in that service station. If he owns it, he has a substantial investment. If he owns the inventory and the equipment in there, then his investment could be $10 to $20,000.

But there are a number of independent branded dealers throughout the country as well as independent branded jobbers.

Senator McINTYRE. You are calling my attention to the fact that these independents exist in these various forms over and above the independents that the letter is concerned with, which talks about the 20 to 25 percent.

The only real competitive factor in the marketplace, as we understand it, as I understand it, is the independents out there that are not beholden to any particular company such as Phillips or Atlantic or whatever they were or are.

Mr. MORRISON. I am of the opinion that when you have any one in the marketplace competing for market penetration, that you have competition, competitive factors, whether it be private brand or whether it be branded, if he is an individual business man.

Senator McINTYRE. I cannot compete with you on that.

Somebody has told me that the big companies just do not really compete one with the other, they just sort of get along mutually. I can understand what you mean, there is an independent that we should not overlook.

Mr. MORRISON. Yes.

Senator McINTYRE. All right.

Go on.

Mr. MORRISON. Question 4. What steps can and should be taken to prevent such shortages and their recurrence?

Governmental rules and regulations should be designed to encourage rather than discourage added investment in exploration and production of crude oil and other raw materials as well as new refinery construction.

A rate of return on this invested capital must be sufficient to generate risk capital in amounts necessary to encourage these endeavors.

The competitive free enterprise system, which fundamentally allocates resources in the marketplace, should be relied upon to provide the energy requirements of the nation.

In a free market, the forces of supply and demand insure that the price of energy reflects its true value. Market forces, then, will direct our limited energy supplies into their most efficient use, thereby eliminating wasteful consumption. And with all forms of energy competing for a share of the market, the consumer will be best assured of adequate supplies at a reasonable price.

The Nation's environmental goals should be properly balanced with its energy needs. Many environmental actions taken by government and private organizations have limited the current availability of energy and restricted efforts to provide for further needs. Some moves have actually led to a waste of both energy and capital resources.

Speed up the actions of the courts and Congress when cases of national concern such as the Alaskan pipeline, offshore unloading facilities, and offshort exploration and drilling are challenged.

Research efforts on alternate sources of energy and mass transportation are long-term necessities but decisions regarding these efforts should be made soon.

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The price control program as presently structured has a potential for aggravating shortages of petroleum products. The function of price in improving the balance between supply and demand is thus restricted if not nullified by mandatory price controls on the large producing and refining concerns.

5. What impact will gasoline shortages have on other products for the remainder of this year and on home heating oils next winter?

Because of the unprecedented motor fuel demand in 1972, the industry went into the winter season with distillate stocks lower than normal. In order to have optimum gasoline supply for the summer motor fuel season, it will be necessary to produce maximum gasoline at the refineries which will mean entering the winter season with lower than desired distillate stocks.

6. What effect will the recently announced replacement of the quota system have on this year's supply of petroleum products?

Crude Oil: The temporary elimination of tariff duty should encourage full utilization of import allocations this year. The new system will not eliminate the problems of supplying Midcontinent refiners.

Gasoline: The 0.5 cent per barrel reduction in fee versus the former duty is insufficient incentive for companies without fee-free allocations to significantly increase gasoline imports.

The limited supplies of gasoline available for import will lay in at costs considerably above domestic prices. In addition, very little of the foreign gasoline will meet our specifications. Without the flexibility to recover these higher costs through price increases, the incentive for traditional suppliers to import will be limited.

Heating Oil: Although foreign heating oil is usually more available than gasoline, it also commands a considerably higher price than domestic oil. Here again, ability to recover increased costs would determine the degree to which projected shortages are satisfied next winter. The new initial security fee of 15 cents per barrel is 4.5 cents above the former duty and thus provides no incentive to import.

Propane: The elimination of duty or fee and the Western Hemisphere restriction should encourage propane imports. The problems of overseas availability, limited receiving facilities, and high cost remain, however. These higher costs must be offset by increased selling prices.

Economic stabilization regulations administered by the Cost of Living Council discourage the use of imported petroleum products to satisfy the domestic shortage.

Furthermore, it may be almost impossible to make a foreign purchase if it requires a long wait to secure an approved price adjustment from the COLC. Such adjustments should be automatic—not negotiated individually with price control authorities.

Mr. Chairman, that completes my statement.

[The full statement of Mr. Morrison follows:]

STATEMENT OF G. J. MORRISON, VICE PRESIDENT, MARKETING OF PHILLIPS PETROLEUM CO.

1.0 What are the causes behind this gasoline shortage?

1.1 The gasoline shortage was caused by four prime factors.

1.1.1 Insufficient refining capacity in the United States. For the past several years new refining capacity has lagged well below the increase in demand

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for finished petroleum products. Not a single major refinery is under construction at present.

The prime reason for the failure of refining capacity to keep pace with demand is the low rate of return on employed capital in the refining, distribution and marketing segments of the petroleum business, and the high costs of building new capacity. The rate of return for our company for these functions combined was only 0.17% in 1971 and 1.9% in 1972 on capital employed of approximately one billion dollars.

Another reason for lack of new refining capacity has been difficulty of securing permits to build refineries because of environmental problems. According to published reports, several oil companies in the past few years have attempted to secure permits for new refining construction at several different locations in this country. These plans were apparently abandoned when the companies were unable to secure such permits.

1.1.2 A shortage of crude oil supplies, particularly the light common low sulphur crude needed by most U.S. refineries to produce maximum gasoline yields.

Here, again, the unacceptable rate of return on investment has held crude oil exploration to levels well below that required to find new supplies to meet our domestic requirements.

Several inland refineries that are unable to receive foreign crude oils are operating at less than capacity due to their inability to secure adequate domestic crude oil.

1.1.3 Increased gasoline demands due to more automobiles being on the road than ever before in our history, and being driven more miles. Also, the less efficient engines in the late model cars which require more fuel to travel the same number of miles as the older model cars. A part of this inefficiency is created by the antipollution devices with which these cars are equipped. Automotive motor fuel usage increased 6% in 1972 over 1971 and this rate of increase is continuing. The Bureau of Mines predicted that May 1973 consumption would be up 6% from May, 1972.

1.1.4 Increased demand for light distillate fuels.

The shortage of natural gas in our country has caused many industrial consumers to switch from gas to distillate fuels. Environmental regulations which prohibit the use of coal and high sulphur residual fuels in many areas of our country have also caused a switch to the lighter heating oils.

Along with these added demands, extremely cold weather in much of the U.S. from October to December 1972 caused requirements for heating oils to exceed industry expectations. Therefore, in order for the petroleum industry to supply the heating oil requirements of home, hospitals, schools and other regular users of this product last winter, the industry had to produce a greater volume of distillates than in previous years. To produce this additional product it was necessary to reduce gasoline production by a like amount. As a result we were unable to build gasoline stocks to levels required to meet the heavy summer gasoline demand.

2.0 The extent of the effect the shortage will have on the nation?

2.1 Short Term—We must realize that the first effect is a reduction in consumption—either voluntary or otherwise. We can easily reach the position where consumer rationing might be necessary. A shortage of fuels for the transportation industry would have far reaching effects on other industries, the products and commodities of which rely on transportation. Our defense system could be seriously impaired. Last but not least, a shortage of petroleum products could have a devastating effect on agriculture resulting in food shortages, higher food prices, and because less food would be exported, a more unsatisfactory balance of payments position.

2.2 Long Term—By 1975 we will be 1.5 million barrels per day short of crude processing capacity or the equivalent of 10 new 150,000 barrels per day refineries. This is a shortage of approximately 12 to 15%. Further, we will need to construct 5 new 150,000 barrels per day refineries each year for the years 1976 through 1985 to keep pace with the demand.

National Petroleum Council forecasts the industry will require approximately $174 billion in investment capital for domestic and foreign expenditures to provide us with the oil and gas requirements to 1985.

We will necessarily have to import much greater amounts of petroleum and this will have a serious effect on our balance of payment position. The present cost of imported petroleum is $4 billion annually, this could escalate to $30 billion by 1985.

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3.0 What impact will the shortage have on competition within the industry?

3.1 We believe that all segments of the industry are going to continue their intensive competition. There will be less emphasis on promotions such as trading stamps, games and giveaways, but competition will increase as the dealers with reduced amounts of gasoline to sell must compensate by increasing their income from their other sales of tires, batteries, accessories and services. We believe competition to secure the best dealers and obtain a viable share of the market will continue at an increased pace because we, and no doubt all of our competitors, do not intend to surrender our customers and market position. Competition to discover domestic and foreign production and the search for foreign supplies of crude and refined products will be at an increased rate provided the return on capital employed will justify the enormous expenditures.

4.0 What steps can and should be taken to prevent such shortages and their recurrence?

4.1 Governmental rules and regulations should be designed to encourage rather than discourage added investment in exploration and production of crude oil and other raw materials as well as new refinery construction. A rate of return on this invested capital must be sufficient to generate risk capital in amounts necessary to encourage these endeavors. In particular, federal regulations of well head price of natural gas going to interstate markets must be removed. Federal regulation of these prices is the prime cause not only of the present natural gas shortages, but of other shortages, because it distorted prices of all energy fields. Congress now has before it a proposal which would provide a tax credit of 7% for unsuccessful domestic exploratory oil and gas wells and a 12% tax credit for successful wells. Passage of this proposal would further encourage domestic oil and gas development.

4.2 The competitive free enterprise system, which fundamentally allocates resources in the marketplace, should be relied upon to provide the energy requirements of the nation. In a free market, the forces of supply and demand ensure that the price of energy reflects its true value. Market forces, then, will direct our limited energy supplies into their most efficient use, thereby eliminating wasteful consumption. And with all forms of energy competing for a share of the market, the consumer will be best assured of adequate supplies at a reasonable price.

4.3 The nation's environmental goals should be properly balanced with its energy needs. Many environmental actions taken by government and private organizations have limited the current availability of energy and restricted efforts to provide for further needs. Some moves have actually led to a waste of both energy and capital resources. Examples are: the halting of the Trans-Alaskan pipeline and consequently the postponement or loss of substantial supplies of oil when we were beginning to really need them; a near halt to further Alaskan search for new petroleum reserves; a slowdown in offshore oil and gas lease sales and the blocking of exploration in the Atlantic Ocean (potentially our greatest future petroleum source); the foreclosure of new refinery and terminal sites on the East Coast needed to accommodate necessary imports, the combination of technology and environmental problems that has disrupted the nuclear power program.

4.4 Speed up the actions of the courts and Congress when cases of national concern such as the Alaskan pipeline, offshore unloading facilities, and offshore exploration and drilling are challenged.

4.5 Research efforts on alternate sources of energy and mass transportation are long term necessities, but dceisions regarding these efforts should be made soon.

4.6 The price control program as presently structured has a potential for aggravating shortages of petroleum products. The function of price in improving the balance between supply and demand is restricted if not nullified by mandatory price controls on the large producing and refining concerns. I have already mentioned the exceedingly low rate of return on capital employed in this segment of our business. Though adequate prices are necessary to correct this condition, we are limited to 1.5% price increases on petroleum products. We may not realize additional increases to cover accumulated cost increases which we were unable to recover through price increases during Phase II, but can react only to so-called "new cost increases", that is, cost increases since March 6, 1973. These unrecovered accrued costs (amounting to almost 3% in our case) were completely wiped out. Other industries are not so restricted. We believe that relaxation of these controls will avoid further aggravation of existing shortages.

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5.0 What impact wil gasoline shortages have on other products for the remainder of this year and on home heating oils next winter?

5.1 Because of the unprecedented motor fuel demand for 1972, the industry went into the winter season with distillate stocks lower than normal. In order to have optimum gasoline supply for the summer motor fuel season, it will be necessary to produce maximum gasoline at the refineries which will mean entering the winter season with lower than desired distillate stocks.

6.0 What effect will the recently announced replacement of the quota system have on this year's supply of petroleum products?

6.1 Crude Oil—The temporary elimination of tariff duty should encourage full utilization of import allocations this year. The new system will not eliminate the problems of supplying Midcontinent refiners.

6.2 Gasoline—The 0.5¢ per barrel reduction in fee versus the former duty is insufficient incentive for companies without fee-free allocations to significantly increase gasoline imports. The limited supplies of gasoline available for import will lay in at costs considerably above domestic prices. In addition, very little of the foreign gasoline will meet our specifications. Without the flexibility to recover these higher costs through price increases, the incentive for traditional suppliers to import will be limited.

6.3 Heating Oil—Although foreign heating oil is usually more available than gasoline, it also commands a considerably higher price than domestic oil. Here again, ability to recover increased costs would determine the degree to which projected shortages are satisfied next winter. The new initial security fee of 15¢ per barrel is 4.5¢ above the former duty and thus provides no incentive to import.

6.4 Propane—The elimination of duty or fee and the Western Hemisphere restriction should encourage propane imports. The problems of overseas availability, limited receiving facilities, and high cost remain, however. These higher costs must be offset by increased selling prices.

6.5 Economic stabilization regulations as administered by the Cost of Living Council discourage the use of imported petroleum products to satisfy the domestic shortage. The higher cost of imported product must be recovered by higher prices on the particular imported volume. This presents an impossible situation to the seller: He is selling his domestically produced product at a lower price. Which of his customers will bear the much higher cost of the imported volume? The solution is to permit the firm to adjust the price on *all* sales of the product, both domestic and imported, by a small amount, an amount sufficient to recover the higher cost of the imported material and the usual percentage markup. Furthermore, it may be almost impossible to make a foreign purchase if it requires a long wait to secure an approved price adjustment from the COLC. Such adjustments should be automatic—not negotiated individually with price control authorities.

Senator McINTYRE. Mr. Hennessy, president of Getty Oil Co.—Eastern Operations.

Mr. HENNESSY. Yes, sir.

Senator McINTYRE. Your full statement will be included in the record.

Mr. HENNESSY. I am Thomas Hennessy, president of Getty Oil Co.—Eastern Operations, Inc., a wholly-owned subsidiary of Getty Oil Co. I speak only for my company.

We are an eastern regional refiner and marketer of gasoline and related petroleum products for Getty Oil.

We have a single refinery in Delaware City, Del., and market gasoline through some 2,500 retail outlets in 11 northeastern States from Maine to Maryland. We sell limited quantities of home-heating fuel and other middle distillates in the same States.

1. The causes of the gasoline shortage.

For Getty Oil—Eastern, there is a shortage because of (a) Operational failures in two key units at our refinery;

(b) The success of our premium-grade-only marketing program and increased demand for Getty premium gasoline; and (c) the

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increase in demand for gasoline caused by the newly installed anti-pollution devices on late model automobiles and the increasing numbers of vehicles on the road.

Our first two stated reasons may be different from those experienced by other companies. In what we hope is a temporary measure, Getty Oil—Eastern—last month started allocating gasoline to all of its customers which include distributors, dealers and farm and commercial accounts. They were reduced to 92 percent of their purchases based on their first-quarter 1973 volumes. Municipalities which render emergency services were not affected.

2. The effect of the gasoline shortage on the Nation.

Reduction of gasoline available to the motoring public, of course, means less business, less travel, reduced acquisitions of real estate and less advertising. There will be an adverse impact on hotels, resorts and recreational business with diminished travel.

3. Effect on competition in the oil industry.

There will continue to be intense competition. However, there will be a change on where it takes place. Instead of in the retail market place, it will be competition throughout the industry to obtain supplies of refined products. Because of phase III, a retailer cannot buy from his supplier at a market dictated price but must pay the frozen price. This distorts and changes the market forces.

At such time in the future as refining capacity catches up with demand, we can expect a return to keen competition at the retail level.

4. What steps can and should be taken to prevent gasoline shortages and their recurrence?

A. Gasoline should be allowed to seek its own competitive price level, free of artificial restraints, so that supply will be induced to meet demand by providing incentive to build new refineries. The Federal Power Commission finally recognized the same problem on natural gas and for the same reasons is permitting price increases.

B. A reasonable price for gasoline will encourage the building of refineries.

C. Some mutual understanding and compromise must be made with the environmentalists. The Alaska pipeline, super-ports, offshore drilling and methods to utilize high-sulfur oils, which have value, have been held up. So, also have nuclear powerplants been greatly delayed. They would have eased greatly the demand for fuel oils and natural gas. While environmental considerations are of paramount importance so also are the personal and industrial needs of our people.

5. The impact that gasoline shortages will have on other products for the remainder of this year and on home heating supplies next winter.

For Getty Oil—Eastern, there wil be no significant impact. We will make and sell about the same quantity of home-heating fuel as last year. Our refinery is running at full capacity.

6. The effect the replacement of the quota system with a tariff license fee program will have on this year's supply of petroleum products.

Our Delaware refinery is designed and equipped to handle sour—high-sulfur—foreign crude oils, that is the bulk, of our crude slate

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for this year. Therefore, there will be no immediate effect on Getty Oil—Eastern.

Also, we do not expect much foreign gasoline will be available. We do think Mr. Nixon's new program which will permit added fuel oil to be brought in for use as fuel oil will lessen next winter's fuel shortage.

In the longrun, however, we will be forced to depend on foreign source crude oils unless there are continuing inducements to search for new domestic sources offshore on our Continental Shelf as well as onshore in Alaska and the other States.

We believe a central Government office to handle all aspects of the energy program would be in our mutual best interest.

Thank you, that is my complete statement.

[The full statement of Mr. Hennessy follows:]

STATEMENT OF THOMAS M. HENNESSY, PRESIDENT OF GETTY OIL CO. (EASTERN OPERATIONS) INC.

I am Thomas M. Hennessy, President of Getty Oil Company (Eastern Operations), Inc., a wholly-owned subsidiary of Getty Oil Company. I appreciate the opportunity to appear before this Committee and to express Getty Eastern's views on the impact of possible shortages of gasoline and other petroleum products on the nation's economy.

At the outset I want to emphasize the limited scope of Getty Eastern's operations and the consequent limited scope of my comments. The Committee has received the views of several integrated oil companies which have operations not only in all phases of the petroleum business in the United States and abroad, but in other forms of energy also. They and others have given the Committee a wide range of suggestions for coping with what is not merely a shortage of gasoline, but on a broader scale an energy crisis.

Getty Eastern, on the other hand, is essentially a regional refiner and marketer of gasoline and related petroleum products. We have a single refinery, located in Delaware City, Delaware, and we market gasoline, primarily premium grade, through some 2,500 service stations and other outlets in only eleven Northeastern States, from Maine to Maryland. We also market through Distributors a limited quantity of home heating oil and other middle distillates in the same States. By reason of the limited scope of our operations, I will not presume to advance proposals for solving all of the problems that might be thought to have contributed to the energy crisis generally or to the shortage of gasoline in particular. Nevertheless, I am hopeful that our views will be helpful to the Committee.

Senator McIntyre's invitation to appear before the Committee outlined six issues in which the Committee was interested and to which our testimony should be directed. I will comment briefly on each of these, in the order listed in Senator McIntyre's letter.

1. THE CAUSES OF THE GASOLINE SHORTAGE

I am frank to admit that I do not know the magnitude of what currently appears to be a real shortage of gasoline, and I do not know generally who is affected by it or to what extent. I do know that Getty Eastern is short of gasoline to such an extent that we cannot meet the demand of our existing customers and have therefore been compelled to limit our customers to 92% of their purchases during the first three months of 1973. Our customers are dealers who resell at retail to the motoring public; distributors who sell to dealers and consumers, and farm and commercial accounts such as municipalities, truck fleets, etc. Over 99% of our gasoline is sold under the Getty brand name or trademark.

There are two broad, interdependent causes of this shortage. First, demand for gasoline has increased substantially by approximately 6% in 1972 over 1971 and by approximately 6% in the first four months of 1973 over the comparable period of 1972. This increase in demand itself has diverse causes. The number of cars owned and used by Americans has increased dramatically. There are more than 86 million cars in use today, and some 12 million cars

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are expected to be purchased in 1973 alone. This is significant in terms of demand for gasoline, for because of the addition of exhaust emission control devices to newer model cars, new cars use considerably more gasoline than older cars. Despite this increased consumption, compared to other products listed on the Government's consumer price index, gasoline has not increased in price at nearly the same rate. While the consumer price index rose 25% from 1967 to 1972, the price of gasoline at the pump rose only 13%. Getty Eastern has not increased its gasoline Tank Wagon prices since about November, 1970. Gasoline is still a great buy, especially compared to steak, and a Sunday afternoon drive is still a relatively inexpensive form of recreation for the average American family compared with many other forms of recreation, the costs of which have kept pace with the general inflationary trends of the past several years.

On top of these general demand pressures, Getty Eastern's own demand for gasoline has risen dramatically in the past three years because of our successful program of marketing only premium gasoline which is sold at a price less than the premium gasoline of our competitors.

While demand for gasoline was increasing, however, the capacity to meet that demand was not keeping pace. In the East, for example, there has not been a new refinery constructed since Getty Eastern's refinery came on stream in 1957, a fact attributable not only to local resistance to refineries but to uncertainties engendered by the Mandatory Oil Import Program. In addition, some older refineries have closed, partly because of difficulties in obtaining secure sources of domestic, sweet crude oil, while others have deferred possible expansions for the same reason. At the same time, a natural gas shortage, which is now recognized to exist by even the Federal Power Commission, led various utilities and industrial users to switch from this artificially cheap source of energy, gas, to fuel oil. This switch, plus the switch of still other industrial users and utilities from higher sulfur coal to fuel oil because of environmental considerations, has placed still another strain on refineries which were already producing fuel oil and gasoline at near capacity. The supply base simply has not been able to keep pace with increased demand.

In Getty Eastern's case, the immediate cause of our gasoline shortage is easy to pinpoint. On February 29, 1972 we suffered a serious fire at our Delaware City Refinery, as a result of which the refinery's fluid coker unit, was out of operation until August 9, 1972. The coker provides feed stock for the catalytic cracker and this is particularly important in our manufacture of gasoline. Our gasoline production was seriously restricted at a time when our demand was increasing. In order to make up the deficit, we both purchased and borrowed gasoline from others. We are still paying back some of the gasoline we borrowed with the result that we are not yet able to devote the full gasoline production of our refinery to the supply of our customers even though the coker has been back in service for several months.

In February, 1973 we suffered a breakdown in the catalytic cracking unit of our refinery, with the result that it too was out of service for several weeks. I should add that we are not alone in refinery troubles. The April 2, 1973 issue of "The Oil and Gas Journal" referred to the fact that in March Exxon had to shut down a large cat cracker, several months before its turnaround was due, and mentioned a fire and explosion which reduced throughput in a crude unit at a Texaco refinery. These accidents are still another cause of the gasoline shortage.

Faced with a shortage of gasoline to supply our existing customers, we have endeavored to find supplies elsewhere. But the shortage we face is faced by others partly for the reasons outlined earlier. Cargoes of gasoline on the United States Gulf Coast are not available at all and foreign gasoline, if available, does not meet our specifications. Gasoline costs, including duty, 24¢ to 26¢ per gallon currently from European refineries.

Moreover, because European refineries have a gasoline yield of only approximately 14%, compared with an average gasoline yield of approximately 43% for United States refineries, and 60% at our Delaware Refinery, there obviously is not much opportunity for European refineries to increase their production for the United States market. Further, the demand for gasoline in Europe is itself increasing. We cannot expect diversion of vast quantities of gasoline from Europe because either the supply and demand forces of the market place will drive the price to such a point that it would be more economic to use such gasoline in Europe, or governmental intervention can be expected to prevent

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European consumers from suffering shortages while European refined gasoline is diverted to the United States markets.

In any event, it is uneconomic for Getty Eastern to purchase gasoline at the prices at which it is now quoted for European cargoes. Domestic gasoline is not available for purchase. As Getty Eastern is subject to the price limitations imposed by the Price Commission in its Phase III program relating to the petroleum industry, if we should purchase foreign gasoline at currently quoted prices, we would be compelled to sell it for substantially less than what we had paid for it.

When we finally realized the magnitude of our gasoline shortage and realized that we could not remedy it by outside purchases, we were compelled to institute a program of allocating gasoline among our various customers, treating them uniformly except to the extent required to accommodate those whose purchases were on a seasonal basis to such an extent that application of the base period chosen would have been inappropriate, and those, such as municipalities, who must have gasoline for essential public services.

2. THE EFFECT OF THE GASOLINE SHORTAGE ON THE NATION

If the shortage of gasoline persists, we foresee many consequences. Consumption will have to be curtailed. This curtailment could have serious side effects. Petroleum companies, including Getty Eastern, might need fewer employees for the marketing, refining and transporting of gasoline, for the acquisition of real estate for service station sites, for advertising, and for other purposes which are related to efforts to increase the consumption of gasoline. We have already drastically curtailed our advertising expenditures. A substantial curtailment of consumption of gasoline by American families could have an adverse impact on hotels and motels, restaurants and recreational oriented businesses. In those areas having limited mass transportation facilities, a curtailment of consumption of gasoline could impede the ability of some persons to travel to their places of work, with a consequent adverse effect on economic productivity.

If consumption must be curtailed then the immediate question becomes, who is to decide on the criteria for curtailment? In our view, there is only one answer. It must be the free force of the market place that determines who will purchase gasoline and how much and at what price. Adherence to this principle has kept Americans supplied with adequate sources of gasoline for decades, and I am convinced that such adherence can continue to insure ample supply in the future. If so, then in the long run the consequence of the gasoline shortage should be that more refining capacity will be built and supplies will increase.

3. EFFECT ON COMPETITION IN THE OIL INDUSTRY

I am sure there is apprehension among some of the members of the Committee that a gasoline shortage will lead to less competition. I do not believe that to be a real danger. Rather, what has happened and should continue to happen is a change of the emphasis on competition. Thus, as we now have our customers on allocation, Getty Eastern is not striving to induce new customers to purchase Getty Eastern gasoline, we are not actively looking for new service station sites, and we have curtailed our advertising. Frankly, I am hopeful about supplies for the future, so I do not expect this condition to persist indefinitely.

On the other hand, there is now keen competition among suppliers of gasoline for any extra supplies that might become available. In periods of oversupply, the competitive emphasis is on finding new customers or retaining old ones. In periods of short supply it is on securing sources of supply. These are different forms of competition, but they are the natural consequence of the free enterprise system and the market place.

Nor do I believe that competition among resellers, such as service station operators, will be adversely affected by this shortage. We are informed that some service station operators have curtailed hours of operation and/or raised prices at the pump. Even if these are the consequences of the shortage, I believe again that they are merely a change of emphasis from competing less on sales to motorists, to more for supplies from refiners and other suppliers of gasoline. This, again, should be one of the direct consequences of the free enterprise system dictated by the market place.

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Unfortunately, because of the Phase III Program relating to the 23 sellers of gasoline, including Getty Eastern, this last phase of competition substitution is distorted. A service station operator who might want to purchase gasoline at a higher price from a seller and market it at a lower price than his competitors, absorbing some of the increase by a reduction of his margin of profit in exchange for the higher volume, may well not be able to do so because under Phase III he cannot pay his supplier what the market would dictate. It is this distortion of market forces that leads me to Point 4.

4. WHAT STEPS CAN AND SHOULD BE TAKEN TO PREVENT GASOLINE SHORTAGES AND THEIR REOCCURRENCE?

As suggested in my response to issues 2 and 3, I am convinced that gasoline must be allowed to find its competitive price level free of artificial restraints such as imposed by the Price Commission. Given other inflationary pressures, this may seem a distasteful choice. But it is now generally recognized that it was the Federal Power Commission's efforts to keep the price artificially low that led to the acute shortage of natural gas we face in the United States today.

The economic forces that determine whether gasoline suppiles will be adequate in the future are hardly different. If the price of gasoline is kept artificially low, there will be no incentive to build new refining capacity or to expand existing refineries. It is to securing this competitive freedom that we should address our attention.

Of course, the whole solution is not that simple. Even given economic incentives, there are stumbling blocks. Well-meaning local citizens and environmentalists may well oppose new refineries or pipelines, such as the Alaska pipeline or superports which would facilitate crude oil deliveries. At the same time as they delay construction of those facilities vital to increasing supplies of gasoline and fuel oil, some of the same people promote exhaust emission controls for cars which in turn cause cars to use even more gasoline. Others have pointed to the need for aid in these areas, and I only add our voice to theirs. Environmental improvements and controls are laudable, but there must be some compromise if we are to avoid serious gasoline, fuel and other shortages.

5. THE IMPACT THAT GASOLINE SHORTAGES WILL HAVE ON OTHER PRODUCTS FOR THE REMAINDER OF THIS YEAR AND ON HOME HEATING SUPPLIES NEXT WINTER

Getty Eastern's gasoline shortage will have no significant effect on any other product produced and/or marketed by Getty Eastern, particularly home heating oil. While we sell only limited quantities of home heating oil, we expect to have about the same quantity for sale next winter as we did this past winter. In that regard, our refinery is now operating at its maximum practical capacity, and is optimized to manufacture gasoline. Even with changes in our crude slate we could not increase our gasoline yields significantly.

President Nixon's new import program permits the importation of substantial quantities of fuel oil for resale only as fuel oil in District I (the Northeastern United States) commencing April 1, 1973. This measure should tend to help the supply of heating oil this coming winter.

6. THE EFFECT THE REPLACEMENT OF THE QUOTA SYSTEM WITH A TARIFF LICENSE FEE PROGRAM WILL HAVE ON THIS YEAR'S SUPPLY OF PETROLEUM PRODUCTS

So far as Getty Eastern is concerned, the change in the import program has not affected our plans. As the Delaware refinery was especially equipped to handle low cost sour (high sulfur) foreign crude oils, unlike many domestic refineries which must have greater quantities of sweet (low sulfur) crude oils, we had already programmed the refinery for substantial foreign crude for 1973.

As indicated in my comments on the cause of the shortage of gasoline, I do not believe that this new program will cause substantial additional imports of foreign gasoline, either for Getty Eastern or for the rest of the industry.

In closing I would like to stress a final point. While this Committee is looking at the gasoline shortage and its causes and cures, another Committee of the Senate is considering other aspects of the energy crisis, including the shortage of fuel oil. We do not believe it fruitful to fragment the study of the forms of energy supplied by the petroleum industry. The shortage of gasoline is

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related to the shortage of natural gas and fuel oil and to the switch from coal to fuel oil, and the causes and cures of any one energy source can only be understood and implemented as part of a more comprehensive plan. We believe that President Nixon's recently announced energy policy recognized the interrelation of these matters and we urge this Committee to do so also.

Thank you for your thoughtful attention.

Senator McINTYRE. Thank you, Mr. Hennessy. I would like to ask Mr. Morrison, in discussing the new tariff system, you state this will not eliminate the problems of supply midcontinent suppliers.

Can you elaborate on this and can you give the committee your suggestions?

Mr. MORRISON. I think there are two problems involved here. The inability of the refineries to handle the sour crude and the logistics problem of getting imported crude into the Midwest.

Senator McINTYRE. Mr. Morrison, it is my understanding your company has, and is presently withdrawing your market operations from various sections of the country, particularly from New England; I know you are familiar with this. This has caused tremendous economic hardship and supply dislocation in that area.

Of particular concern to me is the Phillips jobber in New Hampshire, the Aranco Oil Co., who supplies 37 stations in my State, selling over 13 million gallons of gas a year.

Are you familiar with the particular situation at all?

Mr. MORRISON. Yes, Mr. Chairman. I do not believe it is appropriate for me to discuss that particular situation. My counsel is here and has a court order covering the litigation.

As you know, that is in litigation at present. If you would like to have it for the record, it could be made available.

Senator McINTYRE. Is there the litigation against you.

Mr. MORRISON. Yes, sir.

Senator McINTYRE. All I have in the letter is they suffered a crushing defeat in the New Hampshire Federal Court. That must be the case you are referring to. They do not tell me who the defendant is. They are now appealing that.

Mr. MORRISON. Thank you, sir.

Senator McINTYRE. I do not want to get into it. This is one of the questions that you fellows are sloughing off. You may be right but I don't think so.

Mr. MORRISON. Let me comment on the withdrawal. We made an announcement on June 16, 1972, to withdraw from 10 Eastern States, except a small portion of east central Pennsylvania. At the time we made that decision, we had no knowledge of the gasoline shortage, now, that we are confronted with.

Senator McINTYRE. I say to you the same thing I said to the three former gentlemen. There have been a lot of factors that brought this shortage about, but one of the factors has been stupidity on the part of the oil companies in not knowing how to estimate the demand that was occurring in this country.

I know you do not want to take any of that blame. Go ahead and cite all the things that caused it.

Mr. MORRISON. I am sure we are to blame to some degree. As has been stated by gentlemen before me, over the years we have overestimated and we have had more refining capacity than needed. There are certain things that took place last fall that we, in the

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industry, were not able to anticipate. that being the tremendous upsurge in the use or consumption of motor fuel and the early extreme cold winter that we had. starting in late September through December, plus the fact in the first quarter of 1973 it appears that the motor fuel consumption is going to be up something in excess of 6 percent over what it was in 1972, so these are things that we. in the marketing end of the business, have no control over or we as a company in making our projections, did not have control over. I do not think we can control the weather. We projected our needs, based on a normal winter season.

Senator McIntyre. When did you make your announcement, in 1972?

Mr. Morrison. I believe we made that announcement, Senator, on June 16, 1972.

Senator McIntyre. I have figures here for total U.S. stocks, motor gasoline, thousands of barrels, year 1971, 1972, and 1973. And I do note that the figure starts to decline in March 1972 where it goes from 242,304, to 240,744 and it starts declining until we have the figure for April, 27, 1973, down to 205,000. So it was a very opportune situation.

Your case is in litigation, but it is this sort of a letter from a constituent who says look, these fellows came in and sold me a big bill of goods a number of years ago, you are a good company, we are going to give you a hundred percent financing, they took the bait and they ran with it—they have 37 stations, they are the biggest independent in this State of New Hampshire—the largest jobber, and now on May 31, the contract expires and they are down to what the Alabama fellow said yesterday, to zero oil.

It may be right as Mr. Sellers said, that this shakedown is a good idea, to get rid of some of these weak members in the marketing field, but it is pretty hard on them. I assure you of that. I guess you realize that.

Now a question for Mr. Hennessy. On page 10 of your statement you urge the congressional committees not fragment the review of various forms of energy supplied by the oil industry.

Probably, because your company does not produce large quantities of heating oil, you may not be aware of this, but this committee, one of its subcommittees, has held fuel oil hearings annually for the last 5 years, and other witnesses who appeared here earlier could tell you this, sir.

I would like to make it clear that this committee is concerned during these hearings with the allocation amendment to the Economic Stabilization Act which is clearly within our jurisdiction.

I do note, too, that Mr. Sellers also said on page 10 of his statement:

> Our current supply problem is aggravated by the fact that some of our customers both branded and unbranded marketers, whose contracts have expired have been unable to find a new supply.
>
> In some instances we have been able to continue to supply some product to these customers so that they can stay in business until they locate a new source of supply.

That is what Citco had to say about the problem that I think you are contending there with respect to Aranco Oil in New Hampshire.

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Senator Tower, do you have any questions?

Senator TOWER. No questions of this witness.

Senator McINTYRE. Has your company, Phillips Petroleum, attempted to or constructed a new refinery in the United States in the last 5 years?

Mr. MORRISON. No, we have not.

Senator McINTYRE. How about Getty?

Mr. HENNESSY. No, sir.

Senator McINTYRE. It is all because of environmental prohibitions?

Mr. HENNESSY. No, sir, our return on investment last year was 2 percent. I cannot get interested.

Senator McINTYRE. Your return on investment was 2 percent?

Mr. HENNESSY. Yes, sir, it was largely caused by operational problems at our Delaware plant.

Senator McINTYRE. Getty is getting out of marketing?

Mr. HENNESSY. Not to my knowledge.

Senator McINTYRE. That is what they told me yesterday.

I have got one bad tin ear.

Thank you very much, gentlemen, for being here. I appreciate your coming, particularly at a very difficult time for you, because of the changing situation out there. Thank you.

We call as our next witness Mr. Frank N. Ikard, president of the American Petroleum Institute.

Senator TOWER. Mr. Chairman, I would like to welcome Frank Ikard to this committee. He is a fellow Texan of mine. As a matter of fact, he was my Congressman for 10 years and is from my hometown. He was a Democratic Congressman, I might add.

Senator McINTYRE. Wonderful, at least he had good sense there.

Senator TOWER. Since that time we have elected a Republic Congressman from that district.

In any case, Frank Ikard is a man who knows his subject extremely well and I think is one of the statesmen of the Petroleum Industry and I think that the committee will have much to learn from his testimony here today. I just wanted to express that word of welcome to him.

STATEMENT OF FRANK IKARD, PRESIDENT, AMERICAN PETROLEUM INSTITUTE

Mr. IKARD. Thank you very much, Senator Tower.

Mr. Chairman, I will, as you have indicated, paraphrase or summarize my remarks and file my whole statement for the record, if I may.

Senator McINTYRE. I do appreciate your being here today. We realize it came at a very difficult time for you. Anything you can do in the interest of time to condense your statement, we would appreciate.

Mr. IKARD. I would be very happy to just submit myself for questioning.

Senator McINTYRE. That is agreed.

[Mr. Ikard's full statement follows:]

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STATEMENT OF FRANK N. IKARD, PRESIDENT, AMERICAN PETROLEUM INSTITUTE

My name is Frank N. Ikard, and I am president of the American Petroleum Institute. The Institute is a national trade association representing all branches of the petroleum industry, including refiners and marketers of gasoline and other petroleum products.

I appreciate the opportunity to address some of the aspects of this most important question being considered by this Committee. Before doing so, I would like to explain that I can speak only to those matters which come within the scope of the Institute's program. I am not in a position to discuss any matters having to do with the competitive relationships among individual companies, nor with the plans and decisions made by the companies relating to their products.

Let me begin by touching briefly on some of the causes behind the tight gasoline supply situation.

Consumer demand for motor gasoline was at an all-time peak in 1972. And the growth in demand in 1972—some 6.3 per cent over 1971—was the highest annual increase since 1955. The Office of Emergency Preparedness estimates that the rate of increase in 1973 will again be well above five per cent. Data available for the first two months of 1973 indicate that actual demand has exceeded the OEP estimate.

One reason for the sharp increase in demand for motor gasoline has been the exceptionally brisk sale of new cars. For the first quarter of 1973, for example, U.S. automobile manufacturers produced nearly 20 per cent more cars than they did over the same period a year earlier.

A second reason is that many of the newer models are getting fewer miles per gallon than the older cars they are replacing. General George Lincoln, shortly before he retired as director of the Office of Emergency Preparedness, stated that auto emission standards for new-model automobiles "probably cost us 300,000 barrels a day now, with the consequent impact on an already tight refinery situation, and may cost us two million b/d by 1980."

A third reason is the public's stepped-up demand for air conditioning (69 per cent), automatic transmission (90 per cent), and other power-equipment options (such as brakes, windows, seats) on their new cars. Use of such options also lowers the miles-per-gallon ratio.

The fourth and final reason is that more Americans are seeking away-from-home vacations. As a result, in recent years the sale of travel trailers, pleasure boats and snowmobiles has risen substantially—as has other gasoline-consuming vehicles and equipment.

On the supply side, the need for refineries to produce maximum volumes of distillate fuels (that is, heating oil and diesel fuel) throughout this past winter also had a significant impact on gasoline stocks.

Admittedly, refiners have some—though limited—flexibility to adjust their operations and thereby to vary the percentage yield of products such as gasoline and home heating fuels. It is obvious, however, that increasing the yield of one product can only be done by an offsetting decrease in the yields of other products from a barrel of crude oil.

As a result, stocks of motor gasoline for the week ending April 27, 1972 were some 21 million barrels below the level of the comparable week of 1972—or down about ten per cent. This situation has occurred even though motor gasoline production by U.S. refineries during that period increased by some 36 million barrels above the output for the same period in 1972—an all-time record for the first four months of any year.

Domestic refiners are under great pressure to sustain their production of gasoline at the maximum level possible. One of the basic problems, however, is that there is just not sufficient refining capacity here in the United States to meet the total needs of the American public for petroleum products.

I'll have more to say about this problem a little later. I am also attaching to my statement, data on domestic refining capacity and on stocks of gasoline, distillates, and jet fuels for every week since the beginning of 1971.

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The problem of energy supplies goes well beyond oil and oil products. Shortages of one energy source place an increased burden on other sources. This became painfully evident this past winter, when natural gas shortfalls in some parts of the country caused a sharp increase in demand for distillate fuel oils. Oil, in effect, has become what might be called "the swing fuel." Coal has been ruled out of some markets because of environmental restrictions. Nuclear power plants are not coming on stream as quickly as anticipated or hoped, partly because of environmental restraints. Many large users of energy have therefore swung over to oil.

Nowhere is this swing better illustrated than in the use of distillates by the electric utility market. Between 1967 and 1972, demand for distillates by utilities increased dramatically. In 1967, distillate consumption by utilities was at an insignificant level of 8,000 barrels a day. By 1970, it had increased to 68 thousand barrels a day, and in 1971, to 97 thousand barrels a day. In 1972, the increase was to a very significant 186 thousand barrels a day—which is approximately 80 per cent of total distillate use by all of America's railroads each day.

Clearly, diversion of distillate fuel to generate electricity—an action made necessary by the inability of utilities to use coal and heavier oils, or to obtain natural gas for peak shaving periods—is an inefficient and uneconomical use of this fuel. Distillates should logically be used to heat homes, small office buildings and schools, and to run diesel engines in farm equipment and other vehicles.

Refinery emphasis on production of distillate fuels, and consumption of these fuels by electric utilities and other large fuel users, have thus had a decided impact on both motor gasoline and diesel fuel supplies.

Are there answers to this and other energy supply problems? We believe so. The answers—both in the near-term and over the next decade or so—will not be easy to come by, but they do exist.

First, some possible near-term answers.

One: make maximum use of the flexibility provided in the Clean Air Act for achieving primary air quality standards. Under the Act, the EPA Administrator may grant a two-year extension to a state if he determines that "the necessary technology or other alternatives are not available or will not be available soon enough to permit compliance." To some extent, the current energy problem has been aggravated by regulations that prohibit the use of higher-sulphur fuels—such as coal and high-sulphur residual oil.

The Environmental Protection Agency announced on May 7 that average sulfur oxides concentrations in 32 American cities had decreased by about 50 per cent between 1964 and 1971. Of course, there have been further reductions since 1971. In view of this substantial progress, it may well be that some relaxation of the timetable for achieving much lower concentrations is justified if it can help ease the current energy situation.

Two: accelerate the granting of permits to nuclear power plants to complete their facilities or to begin on-stream operations. I am certainly no expert on nuclear power facilities, but it is my understanding that nuclear power has also suffered to some extent from environmental restrictions. According to one public utility company, no nuclear construction or operating permits were issued in the United States between early 1971 and the middle of 1972. If all of the nuclear units experiencing any kind of delay were in operation, the increase in total electric power generating capacity would be significant.

It is obvious that increased availability and use of energy from coal and nuclear power would substantially relieve the unprecedented pressure on petroleum demand.

Three: energy conservation. We must all place greater emphasis on seeking more efficient and wise use of energy. The Institute and its member companies endorse and support programs to encourage everyone to conscientiously look for ways to use energy more carefully—in the home, in transportation, in business and industry, in agriculture, and in government.

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Specifically with regard to gasoline, several oil companies, in recent public messages, have estimated that motorists would use 11 per cent less gasoline by reducing highway top speeds from 60 to 50 miles per hour. Gasoline savings could also be achieved by keeping car engines properly tuned, by using carpools where possible, and by avoiding unnecessary car trips.

Energy savings can be achieved in many other ways as well. The American Petroleum Institute and individual oil companies are, through written and broadcast messages, seeking to alert consumers to the importance of energy efficiency and to ways in which they can save on energy consumption.

Significant energy savings can also be obtained by industry through the development of technology to more efficiently convert fuel into electricity, and through tighter controls on current plant practices. These and other efforts by all segments of the public can help slow the growth in energy demand, and they should be vigorously pursued.

These efforts, however, cannot alone bridge the ever-widening gap between consumer requirements and available supplies. Nor can they be looked upon as a substitute for actions designed to expand exploration, production, and distribution to consumers of all energy sources.

Let me now turn to some longer-term steps that must be taken now to make new and expanded energy resources available to the nation's consumers.

One: deregulate the field price of natural gas. The petroleum industry is convinced that legislation deregulating natural gas field prices is the best means of stimulating additional supplies of this environmentally desirable fuel, and encouraging the use of gas for its most appropriate purposes.

Two: take prompt action to bring the estimated 10 billion barrels of crude oil already discovered in Prudhoe Bay to U.S. consumers. This would also encourage the further search on Alaska's North Slope to determine whether or not other large oil and gas fields may exist there. Admittedly, North Slope oil will not be available to consumers until perhaps 1977, at the earliest, even if permission to build the trans-Alaska pipeline were granted tomorrow. But, every month that passes without action increases the gap between future domestic supply and demand, and further delays making these much-needed reserves of oil available to consumers.

Three: schedule more frequent and larger lease sales on the U.S. Outer Continental Shelf, consistent with sound environmental considerations. The OCS offers the greatest potential source for new domestic oil and gas supplies. And development of this source could go a long way toward holding down, in the future, the nation's growing dependence on foreign sources for oil and gas.

Quite obviously, imports will have to be increased substantially over the next decade, if the near-term energy requirements of the American people are to be met. But we must not allow dependence on foreign sources to become over-dependence—with adverse consequences to the nation's economic, military and consumer security.

Four: develop deepwater ports to accommodate the increased level of imports and the very large carriers coming into ocean service throughout the world. These larger vessels—and many of them are in the 250,000 dwt. class—are designed to reduce the per-barrel transportation cost of oil. And they offer, as well, the opportunity to lessen the chance of an accidental oil spill, by reducing the number of trips by tankers in and out of heavily travelled harbors, where the chance of such an accident is greater. At present, however, no port facilities in the United States can accommodate these very large carriers. Several ports on the West Coast are capable of receiving vessels up to 150,000 dwt. But only two ports on the East Coast can handle tankers up to 80,000 dwt., and only a few ports on the Gulf Coast can accommodate tankers up to 70,000 dwt. Compared to 70,000 dwt. tankers, use of 250,000 dwt. carriers would reduce the number of ship calls by 75 per cent.

Five: encourage expansion of domestic refining capacity to manufacture the increased volumes of gasoline and other products from both foreign and do-

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mestic crude oil. By 1985, consumer requirements for oil products will, it is estimated, reach some 25 million barrels a day, compared to the approximately 17 million barrels per day expected to be consumed this year. There are, in the United States today, about 250 refineries, with a total capacity of just over 13 million barrels daily. These refineries are operating at the highest level possible under current circumstances; many of them are operating well above their rated capacity.

Substantial additional refining capacity is therefore required here in the United States. We will need, by 1985, the equivalent of some 55 new refineries, each with an average capacity of 150,000 barrels a day.

Some of this increased capacity may be attained by expanding existing refineries, and such expansion is, to some degree, currently taking place. But the overriding need is for new refineries. Yet, none is currently under construction in the United States.

Four major problems are inhibiting the construction of new U.S. refineries.

One: siting of these facilities, which has been complicated by environmental opposition. One East Coast state, Delaware, has banned refinery construction and other heavy industrial installations along its coastline on environmental grounds, and several other states are considering similar action. Yet, ideally and practically, too, refineries should be located near areas of large demand and close to port facilities.

Two: the sources and kinds of crude oil to be run in refineries. Many people may assume that refineries can process any crude oil. In fact, each refinery is designed to process specific types of oil. A refinery designed to operate on "sweet" (that is, relatively low-sulfur) crude oil cannot process the "sour" (that is, higher-sulfur) crude oil which is found in certain fields around the world. The corrosive high-sulfur crudes could not be processed in a refinery designed to handle "sweet" crude without damaging the units and piping in that refinery. A company planning a new refinery therefore needs to know with certainty the exact kind of oil it will be processing. And it must know that such oil will be available in sufficient quantities. Unfortunately, sweet crude supply is presently tight, worldwide. And even if a sweet-crude refinery could overcome the mechanical problems of processing "sour" crude, such a refinery—by using sour crude—could not meet environmental restrictions on refinery emissions.

Three: petroleum product specifications. This especially affects refinery output of gasoline. The refiner today does not know with certainty just what quantities of different types of gasoline will be required for 1975 and 1976 cars. Part of that uncertainty has to do with the interim and longer-term steps that will have to be taken by the automotive industry to meet federal standards.

Four: the economics of refinery construction. A large, new refinery can cost over $200 *million*. To construct all of the needed new domestic refineries over the next dozen years will require an investment of some $11 *billion*. Obviously, problems involving the siting of refineries, sources and kinds of crude oil available, and uncertainties as to product specifications have a negative influence on oil company decisions regarding the construction of new grassroots refineries. There is thus an urgent need to resolve these problems and uncertainties, as well as to permit the recovery of refinery construction costs in the marketplace.

If refinery expansion is not permitted and encouraged in this country new refineries will have to be built abroad—with a consequent loss of American jobs and a further drain on the nation's balance of payments.

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Summary of American Petroleum Institute survey of utilization of operable refinery capacity in the U.S. during week ended Mar. 30, 1973

[Barrels of 42 gallons]

	Daily average
Operable refinery capacity reported to API as of Dec. 31, 1972	13, 556, 312
Operable refinery capacity reported by respondents to survey questionnaire	12, 904, 013
Percent of total operable capacity	95. 2
Crude runs reported	12, 036, 558
Crude runs versus operable capacity	−867, 455
Percent utilization of operable capacity	93. 3
Operable capacity of companies whose crude runs exceeded capacity	5, 982, 957
Crude runs reported	6, 345, 350
Crude runs in excess of operable capacity	+362, 393
Percent utilization of operable capacity	106. 1
Operable capacity of companies whose crude runs were below capacity	6, 921, 056
Crude runs reported	5, 691, 208
Crude runs below operable capacity	−1, 229, 848
Percent utilization of operable capacity	82. 2
Reasons for running below capacity:	
(a) Shut down for turnaround, mechanical repairs, explosion and fire	531, 710
(b) Lack of crude oil	238, 685
(c) Lack of sweet crude oil	139, 847
(d) Crude unit metallurgy	0
(e) Necessity of running grades of crude heavier than normally used	11, 168
(f) Processing oils other than crude	92, 524
(g) Downstream capacity limitations	58, 610
(h) Environmental constraints on refinery operations	15, 000
(i) Asphalt plant shutdown for seasonal reasons	57, 747
(j) Reported capacity overstated	15, 000
(k) Unavailability of other raw materials	1, 491
(l) Other reasons:	
(1) Flood conditions	4, 300
(2) Crude receipt limited pending construction of new wharf now awaiting U.S. Government approval	41, 279
(3) Weather delayed tanker	6, 800
(4) Other miscellaneous reasons	15, 687
Total	68, 066
Grand Total	1, 229, 848

Source: American Petroleum Institute, Division of Statistics and Economics, Washington, D.C., April 10, 1973.

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TOTAL U.S. STOCKS—MOTOR GASOLINE

[Thousands of barrels]

Week ended	API end of week			Bureau of mines end of month		
	1971	1972	1973	1971	1972	1973
Jan. 5, 1973	217,414	225,472	213,849			
Jan. 12, 1973	222,447	227,765	215,186			
Jan. 19, 1973	225,824	229,547	217,852			
Jan. 26, 1973	229,459	235,800	219,675	231,836	239,633	221,823
Feb. 2, 1973	230,430	235,176	219,052			
Feb. 9, 1973	233,188	237,701	219,499			
Feb. 16, 1973	235,975	237,043	216,825			
Feb. 23, 1973	238,840	239,118	221,373			
Mar. 2, 1973	239,988	242,304	216,672	245,015	249,927	
Mar. 9, 1973	242,233	240,744	217,042			
Mar. 16, 1973	243,822	240,324	215,298			
Mar. 23, 1973	243,095	236,831	215,851			
Mar. 30, 1973	245,764	237,636	212,383	245,351	236,831	
Apr. 6, 1973	243,891	234,416	209,467			
Apr. 13, 1973	240,102	232,133	208,929			
Apr. 20, 1973	237,032	227,381	204,373			
Apr. 27, 1973	234,928	225,818	205,099	230,087	225,153	
May 4, 1973	227,888	221,571				
May 11, 1973	225,590	221,442				
May 18, 1973	224,527	222,440				
May 25, 1973	220,469	216,473				
June 1, 1973	221,719	216,051	-------	221,439	214,736	
June 8, 1973	218,493	214,156				
June 15, 1973	217,086	210,027				
June 22, 1973	214,132	209,631				
June 29, 1973	211,370	207,554	-------	209,423	200,143	
July 6, 1973	213,239	207,220				
July 13, 1973	210,600	205,627				
July 20, 1973	207,764	203,657				
July 27, 1973	205,612	201,371	----------	202,864	200,710	
Aug. 3, 1973	208,367	200,662				
Aug. 10, 1973	204,937	201,220				
Aug. 17, 1973	204,097	199,714				
Aug. 24, 1973	203,985	201,058				
Aug. 31, 1973	204,376	197,674	-------	204,069	192,706	
Sept. 7, 1973	203,951	198,943				
Sept. 14, 1973	206,018	199,609				
Sept. 21, 1973	205,865	199,662				
Sept. 28, 1973	206,440	202,246	----------	207,696	199,690	
Oct. 5, 1973	206,854	202,360				
Oct. 12, 1973	208,376	204,624				
Oct. 19, 1973	205,690	203,121				
Oct. 26, 1973	208,975	204,892				
Nov. 2, 1973	208,062	205,324	----------	208,332	207,776	
Nov. 9, 1973	207,380	207,237				
Nov. 16, 1973	204,369	205,752				
Nov. 23, 1973	207,245	209,428				
Nov. 30, 1973	209,898	209,453	----------	208,751	208,930	
Dec. 7, 1973	210,029	209,120				
Dec. 14, 1973	213,816	209,536				
Dec. 21, 1973	215,664	208,836				
Dec. 28, 1973	221,868	210,764	----------	219,125	212,770	

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TOTAL U.S. STOCKS—DISTILLATE FUEL OIL

[Thousands of barrels]

Week ended	API end of week			Bureau of mines end of month		
	1971	1972	1973	1971	1972	1973
Jan. 5, 1973	192,242	190,534	154,398			
Jan. 12, 1973	179,798	179,378	149,541			
Jan. 19, 1973	169,838	170,731	142,538			
Jan. 26, 1973	161,868	162,843	136,991	158,677	160,027	130,958
Feb. 2, 1973	151,262	156,854	131,949			
Feb. 9, 1973	142,459	147,246	128,340			
Feb. 16, 1973	134,305	134,066	125,234			
Feb. 23, 1973	129,149	128,917	118,868			
Mar. 2, 1973	126,209	120,446	116,144	128,635	122,154	
Mar. 9, 1973	121,836	114,079	113,707			
Mar. 16, 1973	118,991	107,857	114,585			
Mar. 23, 1973	115,983	107,078	113,691			
Mar. 30, 1973	112,543	104,799	110,628	112,812	101,728	
Apr. 6, 1973	112,069	101,615	108,264			
Apr. 13, 1973	112,224	100,661	108,554			
Apr. 20, 1973	114,478	99,948	108,472			
Apr. 27, 1973	115,718	98,712	110,497	113,636	103,558	
May 4, 1973	116,196	100,201				
May 11, 1973	117,163	102,928				
May 18, 1973	120,426	103,140				
May 25, 1973	122,700	106,375				
June 1, 1973	132,242	110,393	-------	125,758	112,892	
June 8, 1973	143,397	115,213				
June 15, 1973	136,823	119,379				
June 22, 1973	142,445	122,854				
June 29, 1973	149,434	129,335	-------	145,744	128,739	
July 6, 1973	155,706	136,550				
July 13, 1973	162,301	141,338				
July 20, 1973	167,380	143,454				
July 27, 1973	173,821	150,530	-------	172,328	155,557	
Aug. 3, 1973	178,556	154,920				
Aug. 10, 1973	186,183	161,398				
Aug. 17, 1973	191 014	165,441				
Aug. 24, 1973	197,073	171,197				
Aug. 31, 1973	201,014	173,097	-------	196,934	174,674	
Sept. 7, 1973	203,603	179,267				
Sept. 14, 1973	209,681	183,523				
Sept. 21, 1973	213,385	188,566				
Sept. 28, 1973	213,102	191,316	-------	210,095	190,250	
Oct. 5, 1973	215,861	192,913				
Oct. 12 ,1973	218,505	197,096				
Oct. 19, 1973	220,061	197,608				
Oct. 26, 1973	222,777	197,750				
Nov. 2, 1973	226,644	196,502	----------	222,926	195,530	
Nov. 9, 1973	224,896	194,519				
Nov. 16, 1973	222,139	192,628				
Nov. 23, 1973	223,395	188,391				
Nov. 30, 1973	217,406	186,877	----------	214,738	190,584	
Dec. 7, 1973	208,829	177,334				
Dec. 14, 1973	202,214	171,403				
Dec. 21, 1973	196,400	165,206				
Dec. 28, 1973	193,553	159,168	----------	190,584	154,284	

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TOTAL U.S. STOCKS—KEROSINE-TYPE JET FUEL

[Thousands of barrels]

Week ended	API end of week			Bureau of Mines end of month		
	1971	1972	1973	1971	1972	1973
Jan. 5, 1973	21,344	21,580	19,876			
Jan. 12, 1973	20,969	20,800	20,305			
Jan. 19, 1973	20,972	20,720	19,560			
Jan. 26, 1973	19,950	20,259	20,042	20,680	19,199	18,861
Feb. 2, 1973	20,007	19,195	19,327			
Feb. 9, 1973	19,313	19,137	20,208			
Feb. 16, 1973	20,134	19,054	20,283			
Feb. 23, 1973	19,653	19,060	20,018			
Mar. 2, 1973	20,660	19,197	19,692	19,992	18,891	
Mar. 9, 1973	20,556	19,944	19,961			
Mar. 16, 1973	20,493	19,563	20,788			
Mar. 23, 1973	19,630	19,748	20,964			
Mar. 30, 1973	20,100	19,681	20,794	20,214	20,181	
Apr. 6, 1973	20,124	19,634	21,668			
Apr. 13, 1973	20,623	19,709	23,322			
Apr. 20, 1973	20,579	20,113	22,238			
Apr. 27, 1973	21,319	20,178	21,696	20,658	21,097	
May 4, 1973	22,168	20,271				
May 11, 1973	22,031	20,980				
May 18, 1973	21,683	21,636				
May 25, 1973	21,359	22,603				
June 1, 1973	22,282	22,100	----------	21,822	22,792	
June 8, 1973	22,054	21,585				
June 15, 1973	22,251	22,399				
June 22, 1973	22,257	23,048				
June 29, 1973	22,334	22,552	----------	21,819	22,467	
July 6, 1973	22,542	23,506				
July 13, 1973	22,033	23,765				
July 20, 1973	21,305	24,185				
July 27, 1973	21,399	24,218	----------	21,645	23,585	
Aug. 3, 1973	22,198	24,467				
Aug. 10, 1973	21,682	24,385				
Aug. 17, 1973	21,539	24,967				
Aug. 24, 1973	21,872	24,131				
Aug. 31, 1973	21,880	24,079	----------	21,015	25,132	
Sept. 7, 1973	22,118	24,829				
Sept. 14, 1973	23,307	24,052				
Sept. 21, 1973	22,155	24,671				
Sept. 28, 1973	22,327	23,997	----------	21,437	24,448	
Oct. 5, 1973	21,367	23,944				
Oct. 12, 1973	21,414	23,825				
Oct. 19, 1973	22,053	23,174				
Oct. 26, 1973	21,930	22,896	----------	20,364	22,700	
Nov. 2, 1973	20,904	22,855				
Nov. 9, 1973	21,758	21,666				
Nov. 16, 1973	22,952	21,162				
Nov. 23, 1973	21,708	21,548				
Nov. 30, 1973	22,598	20,950	----------	20,934	21,003	
Dec. 7, 1973	21,758	21,191				
Dec. 14, 1973	22,463	20,272				
Dec. 21, 1973	22,189	19,557				
Dec. 28, 1973	21,790	20,001	----------	20,747	19,346	

Senator McINTYRE. Could you supply the committee with a list of all oil companies that have attempted to construct new refineries in this country within the last 5 years and were denied this because of environmental opposition?

Mr. IKARD. We will attempt to get such a list for you, Senator.

I suspect that it would be difficult to assure you that we can get everyone. But I know of several, offhand, that we can furnish.

We will certainly try to do that to the best of our ability (see p. 308).

Senator McINTYRE. What would be your overall position with regard to whether the President should immediately implement the authority granted to him in the Economic Stabilization Act to allocate petroleum products?

Mr. IKARD. In the first place, we have no position on it as an organization.

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I would feel that it would be well not to impose those at this time. However, I would agree that consideration and study and possibly hearings should be held to determine what might be a reasonable program if it became necessary to implement one.

Senator McINTYRE. What is your overall impression of the industry today under this sudden switch where suddenly we do not have enough oil domestically—what is your overall impression as to what is going to happen in the marketing field?

What is going to happen to these independents, these fellows that were in here yesterday, testifying? This is a self-serve station, one that does not promote service to a great extent but tries to come in with a price on gasoline that is 4, 5, 3 or 6 cents under the brand names in that town or in that area. What is going to happen to these people?

Mr. IKARD. Senator, as I am sure you understand, in my position, I am under all kinds of restraints and inhibitions about commenting on marketing and practices as between companies.

I do think this is a whole new area we are moving into. Short supply—that is new to the industry, it is now new to the Government, it is new to all the American citizens.

I think one of the very important things that we all have to understand is we are in a period of short supply and it will not be short-range. It is going to be long.

There are going to be dislocations. In fact, it would be just impossible for me to comment about some of these relationships between companies and jobbers and things.

In the first place, I do not have the information, and in the second place, the Department of Justice would not like my commenting on it.

Senator McINTYRE. Does the American Petroleum Institute have as its members independents who might be buying excess gasoline?

Mr. IKARD. Yes, sir. We have in our organization every element in the industry.

Senator McINTYRE. Not everybody in the oil marketing business is a member of your institute?

Mr. IKARD. No; I did not say that. I say we have every element represented. Some are in and some are out.

We do have members in every segment of the industry.

Senator McINTYRE. What is your overall impression about this new tariff system which has been implemented on May 1?

Do you believe it will have any appreciable effect on petroleum product shortages over the next few years, and particularly what is your feeling on the question of gasoline in that regard and home heating oil?

Mr. IKARD. I think it will have a salutary effect. There are many other things that are related to it, though, and the fact, as has already been indicated, the inability of some of the refineries to run sour crude is a very basic and important problem.

The logistics of moving whatever imports that are available into some of these areas is important. I think it is a move that will be helpful. But there are many other facets of this problem rather than just the import side of it.

Senator McINTYRE. You have indicated, of course, that we are in for some trouble during the interim and the immediate future.

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Could you briefly tell the committee here what your recommendations are on the broad spectrum, the far-reaching spectrum. 10 years down the pipeline? Are we going to get after that shale? The year I got here, I had heard the distinguished Senator Paul Douglas last talking about the oil up there in the Rockies and the shale. We do not seem to have any of that. Are we going to get there now—are you fellows going to stop us?

Mr. IKARD. We are anxious to get there, Senator, as an industry, and I think we will get there. This is a matter of developing technology. It is the same kind of technological development that held up the development of the breeder reactor. We have not yet developed the technology that is economically feasible to get this oil out of this shale. There are environmental problems. There is no question that all these synthetics will come onstream within the next—I would hesitate to name a year—but within the near future, as we measure time, 10 or 15 years.

Senator MCINTYRE. Do you think we have been spending enough as a nation from the research and development angle to develop this shale question of whether oil is up there that can be marketed or not? Do you think we have expended over the last years—I got here in 1962, I started hearing good shale in 1963. Have we as a nation spent enough money to find out the answer to unlock that oil up there in the shale of the rockies?

Mr. IKARD. Probably within the climates that existed there have been sufficient sums of money. They are not sufficient now until you get results. So, now the situation has changed so much that we certainly should accelerate our research in all these synthetics, including shale.

Just as an individual, and I am not a scientist, I think the area of gasification of coal is a lot nearer within our reach or working with some of our coal supplies—this is the evaluation of a layman, Senator. Let me make that clear, I am not a scientist—I think this is much more feasible for immediate relief than going after the shale.

Senator TOWER. If you would yield to me, Mr. Chairman. I have seen the briefing given by the Joint Committee on Atomic Energy on the energy crisis, and the indicationt here is even if we realized the full potential of the production from shale, we would still be able to meet only a very small percentage of our projected requirements.

In other words, that would not be one of our major contributors to the resolution of that problem. Is that not right?

Mr. IKARD. Yes. I assume this is implied in what you say, that we are going to need in this country all the energy sources we can develop—synthetic petroleum, coal, atomic, all of them, if we have the kind of growth now that we have had in the past, we are going to need every source we can get and we should develop all of them.

Senator MCINTYRE. I don't suppose you know offhand, but you probably can find out and furnish it for the record, I would like to know what has been expended in the nature of research, evaluation, and development of the shale problem in the past 10 years.

Mr. IKARD. You are speaking of what the industry has spent or the Government?

Senator MCINTYRE. Can you get the whole figure for us?

Mr. IKARD. I think we can get the whole figure.

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Senator McINTYRE. If you can get the whole figure, that would be good.

If you can't we will get the rest (see p. 308).

Senator McINTYRE. The reason I say that, one of the places I spend a lot of time, I call it down in the cellar, we closed the doors and get the television boys out of there and we talk about research, development, testing, and evaluation of the military.

We spend money there and goodness knows, I am all for it. I think this year the request is something in the vicinity of $8,500 million for research and development, testing and evaluation in all of the various weapons of defense. It would be nice to know if we start putting a little zip into this shale whether we could bring it out of the Rockies and maybe the consumer would be the winner.

Senator TOWER. Would the chairman yield at that point?

Senator McINTYRE. Yes.

Senator TOWER. The thing is there is so much in the way of research dollars as far as energy is concerned, I think you have to address yourselves to priorities. The full potential yield from shale would now only meet a very, very small percentage of our total energy requirement.

So, if you think in terms of the research dollar, I think you would have to think in terms of priorities. I do not know where those priorities are.

They may be in solar energy, nuclear what have you.

Shale is a potential producer of energy and comes down the list in terms of total contribution to the energy problem.

Senator McINTYRE. Are you talking about or taking into account what we face, a higher price?

Senator TOWER. There is no question we are going to face a higher price.

Senator McINTYRE. With the higher prices, doesn't the shale become much more to be sought after?

Senator TOWER. The higher the price, the more likely you are able to get at these expensive fuels.

Mr. IKARD. The most effective thing we could do is to open up the offshore for development and construct the Alaskan Pipeline. These are two things that would bring us some immediate relief on this supply side—the development of our marine resources and the development of the Alaskan resources.

Senator McINTYRE. How long have you had this job as the top man in the American Petroleum Institute?

Mr. IKARD. About 10 years.

Senator McINTYRE. Have you been a strong proponent of an energy policy for this country?

Mr. IKARD. Yes, sir.

Senator McINTYRE. Why hasn't your voice been heard on this?

Mr. IKARD. It has been heard in every forum in which we thought we could express it, Senator. We have been continually talking about it. It is important to emphasize that energy policy is something that means different things to different people.

I opposed an energy policy when it had to do with the allocation or in-use controls which I now oppose. As to the orderly and proper development of our national energy resources, if that is a policy and I think it is, we have been for that a long time.

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The organization I have been with has been for it. We have made speeches—we have appeared before congressional committees. I would say the record showed this view point long before I was associated with them.

Senator McIntyre. You were born down in Texas?

Mr. Ikard. Yes.

Senator McIntyre. You knew what oil was from the day you were probably hopping around on the grass there.

Mr. Ikard. Yes.

I grew up in one of the great oil parts of this country, north Texas, where it has been a very productive area since the very early days of this century.

Senator McIntyre. I was born up in New England. We do not know what oil is up there, unless we can find it off the Atlantic coast some place. I suppose that we have all been to blame for this. I heard about an energy policy when I got here in 1963 or 1964, under the Democrats and nothing happened.

Mr. Ikard. That is right.

Senator McIntyre. The President's speech at least indicates an awareness, but it is not all as embracing as we would like to see it, like to have it, but we are doing so many things wrong—building buildings you cannot open the windows.

Mr. Ikard. That is right. I agree with that. I think back to your original question here today, I think all of us are to blame for this. I do not think we in the industry have been without some fault in our projections, as you have indicated. But I also think the Government has been very much remiss in some of the projections they have made.

I must say they were some of the projections I participated in personally and I though they were right at the time, much as we all do. When you project, particularly economic questions out over a period of years, my observation and experience has been that it is a very difficult thing to do.

The OEP just a few months ago projected demand for their first quarter of this year and they are way off. They said it will be around 5 percent. It is going to be much higher than that. We all have that problem. I agree with you, it is a frustrating thing when we try to look ahead and see what our requirements are going to be 12 or 14 months from now.

Senator McIntyre. Again I cannot argue with you. One of the things I have learned is the Government has to rely on the industry.

General Lincoln was right here in this room in September of 1972 and there was no shortages in sight.

Mr. Ikard. September of 1972?

Senator McIntyre. Yes. This is 1973, is it not?

Mr. Ikard. There was a great deal of talk about shortages at that time.

Senator McIntyre. I suspect you agree with the distinguished gentleman I heard over at the Library of Congress here in this seminar we had 2 or 3 weeks ago from the Ford Foundation. I do not agree with him. He says there is no villain, no villain in the energy crisis. I have got my villain.

Mr. Ikard. I would hesitate to say there is a villain. I think many people have made projections that are not correct. Due to many fac-

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tors that were absolutely impossible to project. For instance, if I might just comment on one. I think atomic energy fails to move into the market in the way that all of us thought it would 10 years ago, and that has been one of the real contributing factors to this. There are many other factors that have come along that have not been able to be built into projections.

Senator McIntyre. I do not pretend to know what happened to atomic energy and nuclear power but I do know that the environmentalists jump up and down because they are sure the place is going to blow up.

I do not have the answer to why it is not going to blow up. I think AEC joins the parade of the people who have helped us to get into this morass.

Senator Tower.

Senator Tower. Mr. Chairman, I would like to note at the outset that probably what we should be doing is not looking for a scapegoat buy trying to arrive at some solutions to a very pressing problem. I think probably the guilt can be equally spread around among several sources.

I would like to ask Mr. Ikard if he does not concur with the statement made by the President in his energy message, that we are going to have to make some tradeoffs with the environmental standards if we are to arrive at a solution to this problem?

Mr. Ikard. No questions about it. One very dramatic figure is the use of distillate in the generation of electricity. In a 5-year period it has gone from 8,000 barrels a day to 105,000 barrels a day. This increase represents about 80 percent of the distillates that are used by all the railroad engines in this country or about 41 percent of all the diesel trucks, and this is purely on account of environment requirements. It is really very wasteful to use distillate at that—in that way. It ought to go into home heating, it ought to go into transportation, or into these areas where is is tailored to be.

But it is not.

Senator Tower. Could not the same thing be said of natural gas?

Mr. Ikard. Yes.

We all have great concern about the distillates at the moment in transportation and in the farm machinery and all that. It is certainly very efficient in the natural gas situation.

This does not mean that there will be any violation of the principles of the environmental acts that have been passed. It does not mean that there will be any jeopardy to health. It simply means largely that the secondary standards will be probably delayed a matter of a year or two, until they can get in, until technology can pick up and catch up and you can get the practical side of construction of some of these plants that can extract sulfur and do the other things that are necessary to make these energy sources available.

Senator Tower. So, in effect, we are just going to have to confront the environmentalists directly and insist that economic growth and the energy needs of the country may, in some instances have to take procedence over certain environmental standards that we would like to have but are not absolutely necessary for human survival?

Mr. Ikard. Yes.

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Senator TOWER. What is our refining capacity now compared to 10 years ago?

Mr. IKARD. I really cannot give you that comparison.

Senator TOWER. There has not been an increase to keep pace with the increased demand?

Mr. IKARD. Right. I can furnish the exact numbers.

Senator TOWER. That would be interesting to have.

[Mr. Ikard subsequently submitted the following material for the record:]

AMERICAN PETROLEUM INSTITUTE,
Washington, D.C., May 21, 1973.

The Hon. THOMAS J. MCINTYRE,
U.S. Senate,
Senate Committee on Banking, Housing and Urban Affairs,
Washington, D.C.

DEAR SENATOR MCINTYRE: When I testified before your Committee on May 9, you requested that I provide some additional information on several matters related to the energy situation.

In the case of two questions—one related to trends in refining capacity and the other to expenditures for research and development on oil shale—I am enclosing separate statements which address these topics.

Another question related to the impact of environmental opposition upon new refinery construction. As I indicated in my formal statement, there have been a number of reasons for the slow pace of new refinery construction. These included, in addition to environmental opposition, the lack of assurance that the heavy cost of new plants could be recovered in the marketplace and uncertainties over future product specifications and government import policies.

In a paper entitled "Trends in Capacity and Utilization," issued by the Office of Oil and Gas of the Department of Interior in December 1972, ten refinery proposals with uncertain completion dates were listed. It was noted that some of them were "blocked by or having difficulties with environmentalists actions." (See Table II of attached excerpt from OOG Study). This subject is difficult because companies frequently do not make public their plans for such projects, particularly when they have not received permission to proceed with them. It is quite possible that other projects than those listed in the OOG paper have either been abandoned or not proposed at all because of environmental opposition encountered at some stage. We are unable, however, to document any such cases at this time.

As you have undoubtedly noted, there have been reports in the press in the past week or so which indicate that a number of companies are formulating plans to add to their refinery capacity.

If we obtain additional information regarding your question, we will be pleased to share it with you.

During our colloquy we discussed the extent to which the American Petroleum Institute has advocated the development of coordinated and cohesive national energy policies. I asked my staff to search through our files for the last four or five years. Since November 1969, spokesmen for the Institute have testified in favor of such policies before Congressional Committees on 11 separate occasions. On 36 other occasions, Institute representatives have spoken before public groups in favor of this position. Six recent publications released by our organization have also called for coordinated national energy policies.

I appreciated having the opportunity to present my views to your Committee. If either I or any member of my staff can be of further assistance to you, I hope you will feel free to call upon us.

Sincerely,

FRANK N. IKARD.

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U.S. Refining Capacity 1962 and 1972

During the past ten years a gap has widened between U.S. refinery capacity and domestic demand for refined products. Refinery capacity has increased only 33.1% while demand has grown by 57.3%. Environmental opposition to proposed refinery sites, lack of assurance that heavy capital investment costs could be recovered in the marketplace, and uncertainties over future product specifications and government import policies have tended to discourage new plant construction. At present, some refineries are experiencing difficulty in operating at peak capacity because of a lack of low-sulfur crude oil. Government policies should take account of the need to develop adequate domestic sweet crude supplies.

Year	Operable refinery capacity (barrels per day)	Domestic demand (barrels per day)	Refinery capacity as a percentage of domestic demand
1962	10,012,734	10,400,079	96.3
1972	13,324,734	16,354,134	81.5

NOTE.—Refinery capacities are the average of beginning and end of year capacities, including operating and operable-shutdown capacity. Shutdown capacity which is not operable without extensive repair is not included. All figures are in barrels (42 gallons) per day.

Source: U.S. Bureau of Mines; American Petroleum Institute.

Oil Shale Research and Delelopment

Oil shale research and development have been underway both in this country and abroad for more than a century. A Scottish firm produced oil from oil shale as long ago as the 1860's. The problems associated with oil shale development, coupled with the abundance of cheap energy sources, retarded in-depth research efforts until after the end of the Second World War.

Accelerated R&D efforts were begun in the 1960's. The Oil Shale Corporation (TOSCO) was formed in 1960 by oil companies for the purpose of bringing oil shale research to the pilot plant stage. Four years later, TOSCO joined with the Standard Oil Company (Ohio) and the Cleveland Cliffs Iron Company to form a consortium known as The Colony Group. The two Ohio firms withdrew from active participation in 1966–67 and TOSCO operated alone until 1969 when the Atlantic Richfield Company entered the Colony Group as manager of the Colony Semi-works Plant at Parachute Creek, Colorado.

Besides the TOSCO and Colony Group efforts, the U.S. Government through the Bureau of Mines, has pursued an active research program.

Total estimated industry investmtent in oil shale research and development since the end of World War II ranges from $75 million to $100 million. Government investment during that same period is estimated at $20 to $40 million. At present, industry is spending around $6 to $7 million a year on oil shale development, and the Bureau of Mines about $2½ million a year.

Oil shale development has been slow for three major reasons:

(1) Its development does not yet appear attractive in economic terms. The National Petroleum Council estimates that the price of a barrel of shale oil would be $4 to $5. Higher crude oil prices are likely to stimulate increased research and development efforts.

(2) Oil shale technology faces several environmental problems which must be resolved. The process of oil shale extraction requires the processing of two tons of rock for each barrel of oil produced using present methods, creating a huge shale disposal problem.

(3) The Federal Government has maintained an inconsistent position regarding leasing of federal lands for oil shale development. While the official govern-

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ment policy is to encourage development of new energy technology, it has been slow to offer federal land leases for oil shale development because of unresolved environmental questions.

[From the U.S. Department of the Interior, Office of Oil and Gas—Washington, D.C.]

TRENDS IN CAPACITY AND UTILIZATION, DECEMBER 1972

As the Nation's principal conservation agency, the Department of the Interior has basic responsibilities for water, fish, wildlife, mineral, land, park, and recreational resources. Indian and Territorial affairs are other major concerns of America's "Department of Natural Resources."

The Department works to assure the wisest choice in managing all our resources so each will make its full contribution to a better United States—now and in the future.

FOREWORD

There has been a virtual stagnation in the growth of United States petroleum refinery capacity in relation to the country's demand for petroleum products. Concurrently there has been a rapid growth in offshore refineries designed to produce selected petroleum products for the United States market. This report highlights the extent to which important world refining exporting centers are participating in this geographical shift, both currently and in the near future.

November 1972.

GENE P. MORRELL,
Director, Office of Oil and Gas.

INTRODUCTION

In August 1971, this office issued a report entitled "United States Petroleum Refinery Capacity and Utilization." Part of our objective with this writing is to refine and update some of the more important information included in that report. In this case the updating has been limited to the overall summary by districts of crude capacity and crude runs with projections through 1975 based on known projects for increased refining capacity.

As a complement to this, past performances and trends are presented for those world refining centers with the capacity to export petroleum products to other countries and in particular to the United States. In dealing with certain of the exporting centers which are composed of several countries, *all* countries in the area were included in the balances for the sake of completeness even though some may have no prospects to become an exporter. In this manner the true *net* exportable capacity of the area can be determined after allowance for the area's own consumption. Consumption consists of local demand, international bunkers and refinery fuel and loss. For this reason, some small countries with large refining operations show oil requirements which otherwise might have been considered out of line.

Some comment is also made on factors which may affect trends in certain of these exporting centers.

U.S. REFINING CAPACITY TRENDS

The outlook for expansion in the United States petroleum refining industry has not undergone any significant change over the past year or so. There is still a lack of any firm significant projects in prospect from 1973 onward. The last large project is the new Mobil refinery at Joliet, Illinois and this is expected to be onstream toward year-end or in early 1973.

Capacities and crude runs are summarized in Table I for the past several years. Capacities from 1972 through 1975 were obtained by adding known planned new capacity (Table II) to current capacity. No allowance has been

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made for shutdowns or retirements, or minor debottlenecking. Table I shows the rates of refinery operation required to maintained product imports at their 1971 level. In Table III, crude runs are shown on various bases including potential runs as limited by equipment and required runs for three different levels of product imports.

Although capacity of downstream equipment is important, it controls the pattern of the product yields obtained. However, regardless of changes in downstream equipment, crude runs roughly equate to the product volumes obtained and therefore is the most important measure of the overall ability to produce petroleum products.

Examinations of data relating to processing intensity in the United States and in world refining exporting centers reveals some interesting comparisons.

	Percent capacity based on crude capacity						
	Cat cracking	Cat Ref	Hydrogen processes	Alkylation	Therm ref	Therm processing	Hydrocracking
United States[1]	35.0	8.9	37.3	6.3	([2])	11.7	6.4
Bahamas/Caribbean	7.0	5.1	17.2	.8	0.3	15.3	0
Middle East	3.0	3.6	9.1	.4	2.9	1.9	1.8

[1] U.S. data from Oil and Gas Journal, Mar. 27, 1972.
[2] Included in thermal processes.

The differences reflect the well-known pattern over the past years wherein United States refiners have concentrated on destruction of residual and maximizing high octane gasoline production. The refinery exporting centers produce large volumes of fuel oil in simpler units. More detail is available in Table IV.

Based on the rate of increase in product imports in the past ten years, it is evident that about 1,720,000 barrels per day of refining capacity has been "exported" to foreign locations over that period. Aside from the adverse effects this contributes to the United States balance of payments, this trend has eliminated employment opportunity in the United States not only in refining itself but in allied and supporting industries as well.

During the past decade the average number of employees required in refineries averaged about 14 men per thousand bbls per day processed. This works out to be equivalent to 24,000 jobs eliminated as a result of the "exportation" of capacity. Gulf Canada recently made a survey which revealed that each refinery job creates 3.5 jobs in closely allied service and manufacturing sectors. In their opinion this same factor applies to the United States. This alone is equal to 84,000 jobs or a total of 108,000 jobs. Considering the average U.S. household has 3.2 persons, some 346,000 persons are affected. Still further this does not take into account the employment in other service areas in housing, food, entertainment, education, roads, civil needs and other "downstream" activities.

An average refinery project requires about two to two and one-half years to complete, from the day the contract is let to start-up. It includes some appreciable time for office work before ground is broken on the project site. All of this must be preceded by a feasibility study by the refining company, location of an acceptable site, clearance from local and state authorities, environmental impact statements, approval by the refining company's board, preparation of job specifications, invitations for bids, study by the constructing companies and preparation of their bids and finally the oil company's study of bids prior to contract award. These steps take several months prior to the two to two and one-half year period mentioned above. In summary, the implication is that nothing significant in terms of new capacity could be realized before 1976. Statements have been made by responsible persons in the industry that a concerted effort would have to begin immediately by all of the companies to restore refining capacity to its proper position by 1980.

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TABLE I.—PETROLEUM REFINING CAPACITY AND ACTUAL CRUDE RUNS

[In thousands of barrels per calendar day]

Year	District I		District II		District III		District IV		District V		Total United States		
	Capacity [1]	Runs [2]	Capacity [1]	Runs [2]	Capacity [1]	Runs [2]	Capacity [1]	Runs [2]	Capacity [1]	Runs [2]	Capacity [1]	Runs [2]	Percent
1955	1,286	1,163	2,316	2,136	3,038	2,863	289	255	1,297	1,063	8,226	7,480	90.9
1956	1,351	1,231	2,436	2,284	3,189	3,051	296	269	1,325	1,124	8,597	7,959	92.6
1957	1,423	1,296	2,532	2,279	3,265	2,922	304	273	1,352	1,149	8,876	7,919	89.2
1958	1,484	1,199	2,643	2,318	3,346	2,779	321	266	1,403	1,080	9,257	7,642	82.6
1959	1,546	1,215	2,727	2,424	3,447	2,925	330	291	1,448	1,139	9,498	7,994	84.2
1960	1,537	1,220	2,766	2,422	3,464	2,989	330	286	1,488	1,170	9,585	8,067	84.2
1961	1,558	1,223	2,784	2,433	3,520	3,026	345	284	1,515	1,219	9,722	8,184	84.2
1962	1,543	1,214	2,809	2,463	3,584	3,178	360	304	1,519	1,252	9,815	8,410	85.7
1963	1,493	1,246	2,847	2,541	3,671	3,325	375	307	1,555	1,268	9,941	8,687	87.4
1964	1,464	1,216	2,870	2,578	3,805	3,419	385	320	1,589	1,299	10,113	8,807	87.1
1965	1,420	1,200	2,896	2,645	3,864	3,506	386	330	1,600	1,362	10,166	9,043	89.0
1966	1,400	1,259	2,951	2,790	3,906	3,665	386	338	1,649	1,392	10,292	9,444	91.8
1967	1,416	1,267	3,049	2,849	4,228	3,903	394	344	1,707	1,452	10,794	9,815	90.9
1968	1,452	1,307	3,161	2,967	4,581	4,129	413	367	1,770	1,571	11,377	10,312	90.6
1969	1,477	1,309	3,220	3,013	4,737	4,264	422	385	1,875	1,658	11,731	10,629	90.6
1970	1,487	1,290	3,360	3,154	5,027	4,357	424	393	1,974	1,676	12,272	10,870	88.6
1971	1,515	1,330	3,482	3,230	5,345	4,492	424	405	2,081	1,742	12,847	11,199	87.2
1972	1,541	----------	3,478	----------	5,481	----------	425	----------	2,179	----------	13,104	11,989	91.5
1973	1,553	----------	3,560	----------	5,499	----------	428	----------	2,208	----------	13,248	12,779	96.5
1974	1,553	----------	3,642	----------	5,517	----------	428	----------	2,208	----------	13,348	13,570	+100.0
1975	1,553	----------	3,642	----------	5,517	----------	428	----------	2,215	----------	13,355	14,360	+100.0

[1] Capacity of operating refineries—average of January 1 in given year and January 1 in following year—U.S. Bureau of Mines 1972 and later obtained by adding known projects.

[2] U.S. Bureau of Mines crude runs in year indicated. Projections 1972 and later represent volumes needed to be run to hold product imports to current levels. Demand based on interior Alyeska Study with minor updating revisions for the year 1975.

Source: Hydrocarbon Processing, Oil & Gas Journal and miscellaneous sources.

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TABLE II.—NEW REFINERIES OR EXPANSIONS SCHEDULED IN THE UNITED STATES BY PAD DISTRICTS—MILLION BARRELS, DAY OF CRUDE DISTILLATION

Company/Location	I	II	III	IV	V	Total
1972:						
Witco Chemical Corp. (Bradford, Pa.)	7.5					
Mobil (Paulsboro, N.J.)	6.9					
Quaker State (Hancock Co., W. Va.) (new)	10.0					
Ashland Oil Co. (St. Paul, Minn.)		10.0				
Total Leonard (Alma, Mich.)		5.0				
Alabama Refining Co. (Mobile, Ala.)			4.0			
Murphy Oil Corp. (Meraux, La.)			31.0			
Southland Oil (Lumberton, Miss.)			1.0			
Sage Creek Refinery (Cowley, Wyo.)				1.0		
Refinery Corp. (Commerce City, Colo.)				4.0		
Chevron Asphalt (Portland, Oreg.)					6.0	
Hawaiian Independent Refinery (Barbers Point, Oahu) (new)					35.0	
Mobil (Ferndale, Wash.)					8.1	
San Joaquin Oil Co. (Oildale, Calif.)					6.0	
Douglas Oil Co. (Santa Maria, Calif.)					2.0	
Total	24.4	15.0	36.0	5.0	57.1	137.5
1973: Mobil (Joliet, Ill.[1]) (new)		164.0				164.0
1974: None						
1975: Energy Co. (North Pole, Alaska)					15.0	15.0
Projects which are uncertain or have unknown completion dates:[2]						
Supermarine (Hoboken)	100.0					
Shell (Delaware)	150.0					
Occidental (Machiasport)	300.0					
Atlantic Refining Association (Norfolk)	30.0					
Fuels Desulfurization (Maine)	130.0					
Guardian Oil Refining Co	125.0					
Northeast Petroleum (Tiverton, R.I.)	65.0					
Georgia Florida Oil & Refining (Brunswick, Ga.)	70.0					
Crown Central Petroleum (Baltimore)	100.0					
Dillingham (Barber's Point, Oahu)					50.0	
Total	1,070.0				50.0	1,120.0

[1] Expected to be on stream about Jan. 1, 1973.
[2] These include some projects blocked by or having difficulties with environmentalist actions. Others have been included because they are still in the early planning stages.

Senator TOWERS. Hasn't a great deal of the problem been in siting the refineries?

Mr. IKARD. Yes, we estimate that there needs to be between now and 1985, 55 new refineries of at least 150,000 barrel capacity and at th present time there is not one refinery being constructed in the United States, and there has not been since one was completed roughly 6 or 8 months ago in the Midwest.

Senator TOWER. You spoke of long term incentives, and I think that while we want to take whatever measures we can to meet our short term needs, in the final analysis, we have got to pay attention to our projected needs over the next decade or the next 25 years and think in terms of long term incentives. Those are long lead time items. If we started the Alaskan pipeline now, it would be 3 years minimal before we could realize any benefit from that. The same is true of any kind of incentive programs we could engage in with the possible exception of deregulating the price of natural gas at the wellhead. That would probably generate a more immediate result than any other incentive program, would it not?

Mr. IKARD. Yes, sir.

Senator TOWER. You mentioned deregulation of gas at the wellhead. I would like to ask you about some of these other incentives, such as has been suggested by the administration and some of us who have introduced legislation on the subject. The extension of the tax investment credit to new explorations and new secondary recovery.

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Mr. IKARD. I think it would be a very helpful thing in accelerating exploratory efforts and that is what we should be doing.

Senator TOWER. And we should certainly, as the President recommended, retain our present incentives such as intangible drilling costs and depletion allowances.

Mr. IKARD. Yes.

Senator TOWER. Thank you very much, Mr. Ikard.

Senator MCINTYRE. You are knowledgeable on the oil industry. Do you think the incentives that are in the President's energy program are going to be sufficient to help us in New England?

Mr. IKARD. Yes, sir, they will develop new sources of supply and I think that will be helpful to New England and every part of the country.

Senator MCINTYRE. I think that New England needs a refinery, about 250,000 barrels a day.

Mr. IKARD. I think that is probably true.

Senator MCINTYRE. Are the incentives in the President's program, as you know them, sufficient to get us off the ground in New England?

Mr. IKARD. I cannot speak for any company but my guess is there will be refinery capacity developed in New England.

Senator MCINTYRE. I went out to Bellingham, Wash. on Puget Sound, the Canadian border, to see Arco's clean refinery, including technology about 10 years ago. Is it possible for me to say in New England that this is a clean refinery, that this is ecologically satisfactory?

Mr. IKARD. I would think that any modern refinery—any refinery built today would meet all the environmental requirements and there would be no problem from the environmental standpoint.

Senator MCINTYRE. The burning of sulfur and so forth?

Mr. IKARD. Yes.

Senator MCINTYRE. Thank you very much, Mr. Ikard. We will recess our hearings until 10 tomorrow morning.

[At 12:50 p.m. the hearings were recessed until 10 a.m., May 10, 1973.]

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PETROLEUM PRODUCT SHORTAGES

THURSDAY, MAY 10, 1973

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS,
Washington, D.C.

The committee was convened at 10 a.m., in room 5302, New Senate Office Building, Senator Thomas J. McIntyre, presiding.

Present: Senators McIntyre, Johnston, Tower, Bennett, and Brooke.

Senator MCINTYRE. The committee will come to order.

Senator TOWER. Would you yield, Mr. Chairman?

Senator MCINTYRE. Yes.

Senator TOWER. I had prepared some remarks at the beginning of the hearings and I was not able to be here. I ask unanimous consent that they be put in the record.

Senator MCINTYRE. Without objection, that will be done (see p. 3). Also we have a statement that Senator Packwood requested we put in the record of today's hearing.

[The statement follows:]

STATEMENT OF BOB PACKWOOD, U.S. SENATOR FROM THE STATE OF OREGON

Mr. Chairman. I should like to take this opportunity to extend my regrets to the Senator from New Hampshire for not having been able to attend earlier sessions of these hearings into the problems associated with petroleum product shortages. I have had an opportunity to review the testimony that has been presented to date and would like to commend the Senator from New Hampshire for his leadership in bringing this entire matter to the attention of the Committee.

The information we have received and will continue to receive in the form of statements and supplementary evidence for the record will prove to be immensely valuable as the Senate and the Congress seek to come to grips with the problems this nation is facing today and will face with increasing severity in the future as our demand for energy grows.

Senator MCINTYRE. We begin today our fourth day of hearings on the impact of petroleum product shortages on the national economy. On Monday we heard from what I would term the large users. They were able to testify as to the railroads and the waterways and the aviation and the truckers, the air people. On the second day, on Tuesday we heard from those small businessmen and users who are feeling the bite of the shortage.

Then yesterday we had the pleasure of hearing from the large companies, the majors, and today I am happy to welcome people representing the Government of the United States.

We have here this morning as our first witness the Honorable William E. Simon, who is the Deputy Secretary of the Treasury and Chairman of the President's Oil Committee. Also at the table with

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him at the same time is Mr. Darrell M. Trent, Director of the Office of Emergency Preparedness.

I am glad to welcome you here, Mr. Secretary, and Mr. Trent. At this time, before proceeding, I hope you will introduce to the committee those members who are at the table with you for the record.

Let me say that we have your full statement. It will be included in the record in its entirely. Any time, during the process of reading it, that you can digest it or make a little bit shorter, we will appreciate that.

I am delighted to welcome you here.

STATEMENT OF WILLIAM E. SIMON, DEPUTY SECRETARY OF THE TREASURY, AND CHAIRMAN, PRESIDENT'S OIL POLICY COMMISSION AND DARRELL M. TRENT, ACTING DIRECTOR, OFFICE OF EMERGENCY PREPAREDNESS, ACCOMPANIED BY DAVID R. OLIVER, FROM THE OFFICE OF OIL AND GAS, DEPARTMENT OF THE INTERIOR, AND WILLIAM A. JOHNSON, SENIOR ENERGY ADVISER, TREASURY DEPARTMENT

Mr. SIMON. I am delighted to appear before you today. With me is Darrell M. Trent, Acting Director of the Office of Emergency Preparedness; Dave Oliver from the Office of Oil and Gas, Department of the Interior, and Bill Johnson, Senior Energy Adviser, Treasury Department.

I want to discuss the possible shortages of gasoline and other petroleum products. As such, I would like to focus on the following:

(1) The causes behind these shortages;

(2) The effect of these shortages;

(3) The impact that gasoline shortages will have on other products for the remainder of this year and on home heating oil supplies next winter;

(4) The effect of the new mandatory oil import program; and

(5) What steps are being taken to prevent such shortages and their reoccurrence.

The first thing to understand is that the demand for energy has been increasing continually while our supply has not. With 6 percent of the world's population, we are consuming one-third of the world's energy. Furthermore, the demand for energy in this country is growing at an annual rate of about 4 percent and by 1990, our energy needs will be double that of 1970.

Further, demand for gasoline in the United States has been growing faster in the past several years than at any other time in recent history. Since 1968, gasoline demand has risen at an annual rate of about 5 percent. During the past 2 years the rate of increase has been about 6 percent per year. Part of this rise in demand can be explained by growth in the population, growth in the economy, and the increasing number of cars on the road.

But demand has also risen significantly because of the many power-using devices added to cars. These include automatic transmissions, air-conditioning, various safety features and the changes made in automobiles since 1970 in compliance with EPA regulations issued under the mandate of the Clean Air Act. Producers' compliance with

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these regulations has led to substantially reduced engine efficiency. As more vehicles come on the road equipped with safety emission control, and physical comfort devices, average mileage per gallon will decrease further. An automobile that once got 14 miles per gallon, now gets 8 or 9 miles, and it may get only 6 or 7 miles per gallon if present trends continue.

Because new automobiles are not getting the gasoline mileage obtained by their counterparts 5 and 10 years ago, and because we are driving more, gasoline consumption has risen. We are using 300,000 barrels per day more of gasoline this year that we did last year.

While gasoline demand has been growing at about 6 percent per year, the volume of crude oil processed by refiners has risen only 3 percent per year. We are now extremely short of refinery capacity and, at the time of the President's energy message, which announced the new oil-import program, no new refineries were under construction. Furthermore, expansion of existing refineries had ceased. Growth in the capacity of the industry had come to an end because the industry found that it was more profitable to invest abroad than in the United States.

One reason for this is that environmental restrictions have made it increasingly difficult to find acceptable sites for new refineries in this ocuntry. Because of resistance to refinery siting, it may take 3 years to obtain site approvals today, in addition to the 3 years required for construction. Yet, modern refineries can be designed so that they do not significantly pollute the environment. In this regard, I would mention a recent trip which you, Chairman McIntyre, made to inspect a new refinery in the State of Washington. I understand that you were impressed by the cleanliness of this refinery and have urged your fellow Senators from New England to support such a refinery in their area.

Senator McIntyre. One of the things that has bothered me, I asked the question yesterday, I believe, of Mr. Ikard, we saw what was known as a clean refinery, the Arco Clean Refinery, but in the brochure they said they were utilizing technology that was 10 years old. What I want to ask you is, is that the sort of refinery that we could promote or we could be trying to get underway in New England that would answer many of the questions that the ecologists raise or have they got other questions? Does this satisfy them at all?

Mr. Simon. I think there is a fundamental misunderstanding about a refinery. They conjure in their minds the smoke pouring out of the stacks and the traditional way it does in the industrial areas of this country.

As you saw firsthand, it just is not that way any longer. We would hope that that would answer their questions. Whether it will or not, sir only time will tell.

Senator McIntyre. That is certainly true, because you recall we accused the Arco people of having nothing happening at the refinery that day and they told us they put through something like 85,000 barrels with a 5 percent sulfur content crude.

Mr. Simon. This is part of the education process that must take place to prove to them that this is indeed a clean refinery and what a clean refinery is. That was a major step in that direction. I was delighted that you took that trip.

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Senator McIntyre. It was a good trip. It was a little too fast.

Mr. Simon. One day; yes, sir.

Another reason why the industry has located new refineries abroad is that U.S. oil import restrictions, in the past, created uncertainty as to whether new domestic refineries could obtain sufficient imported supplies of crude oil. As long as the Government set improper quotas on a year-to-year and, in some cases on a month-to-month basis, no company was assured of the stability of supply necessary to encourage domestic refinery construction. This impediment ended on April 18 when we terminated volumetric quotas on oil imports.

Finally, the tax and other economic benefits available to refiners in the Caribbean and in Canada have been more lucrative than similar provisions available in the United States. For all these reasons, U.S. refinery construction has been standing still while U.S. demand for refinery products has been growing.

To meet the growing demand for gasoline, refiners have been changing their mix of products to increase their yield of gasoline. The average yield of gasoline per barrel of crude oil rose from 43.8 in 1968 to 46.9 percent in 1972. This means, of course, that the yield of other products, such as fuel oil, has been reduced. It is also a short-term expedient at best. Whatever the product mix, it will be necessary to increase substantially our overall imports or refinery products to avert both a gasoline shortage this summer and a fuel oil shortage next winter.

Our growing lack of refinery products was driven home to the public late in 1972 with shortages of distillates and other heating fuels in various parts of the country. Refineries had to increase their percentage of distillate production and, correspondingly, reduce gasoline production. As a result, we are now coming into the summer season with low gasoline stocks. As of April 20, we had only 240 million barrels of gasoline in storage. This is down 12 percent from last year, while demand is up 6 percent. Furthermore, domestic production, even today, is not keeping pace consistently with demand. We are using an average, 47 million barrels of gasoline weekly and producing only 43 million barrels. For this reason, we are faced with the prospect of serious limitations on gasoline supply.

An important aspect of the supply problem is the distribution system in this country. Some areas of the country are close to pipelines and refineries. Some areas are served by the retail outlets of the major oil companies. These areas will not feel a shortage as much as otner areas which are relatively distant from pipelines and not well served by the major oil companies.

Recognizing the serious nature of the gasoline and fuel oil shortage, and that there are regional differences in the intensity of the problem, we have established regional subcommittees of the Oil Policy Committee, of which I am chairman. These groups consist of representatives of the independent segment of the industry serving particular areas of the country. In addition, we have contacted the Governor's office of each State and explained to them the need to reach some compatibility between our energy needs and State environmetal requirements.

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As a result, representatives of the Governor's offices are attending these subcommittee meetings, and we are able to identify regional problems and hopefully deal expeditiously with them. Working in this way, we are able to maintain flexibility in the administration of the new oil import program and to be responsive to the special problems of particular areas of the country.

We are greatly concerned about the independent companies. The independent segment of the oil industry—the indpendent refiners and the independent marketers—are faced with related but distinct problems. The refiners face crude oil shortages; the marketers, gasoline shortages.

To understand how these problems developed, it is important to realize that until the early seventies, we had surplus crude oil production capacity in the United States. This enabled independent refiners to buy crude oil and build refineries to supply, among others, independent jobbers, marketers, and other wholesale customers. There was also a surplus of gasoline and other products being produced by the major oil companies. Independent marketers took advantage of this surplus and opened thousands of gasoline stations to sell gasoline purchased in the spot market. By efficient servicing of consumers, these marketers were able to sell gasoline for a few cents a gallon less than the major oil companies. I believe that these independents had a healthy influence on the petroleum industry by giving consumers a greater choice between price and service. They made it possible for consumers to buy gasoline at lower prices.

The gasoline shortage has hit these independents hardest. In the first place, independent refineries can no longer get adequate supplies of crude oil. They used to obtain domestic crude oil by exchanging their import licenses with the major oil companies. The major companies used the import licenses to import cheaper foreign crude for their own use, while providing the independent refiners with domestic crude oil. In addition, the so-called sliding scale method of allocating import licenses under the old system gave smaller refineries more than proportionate share of the licenses.

All this has changed during the last 2 years. Quoted prices of foreign crude oil are now equal to or higher than prices of American crude sold in the same markets. There is a worldwide shortage of low-sulfur or sweet crude. As a result, major oil companies have had no economic incentive to trade their domestic sweet crude production for imported crude obtained by means of independents' import tickets. Further, because of local air quality standards, companies are compelled to use low-sulfur crude even though their plants are designed for refining high-sulfur crude. The result is that the independent refineries cannot get the crude oil they need and are operating at less than full capacity.

Independent gasoline marketers are also in a difficult position. The wholesale market for gasoline is drying up. Many of the independents find it impossible to purchase gasoline wholesale. Hundreds of independent gasoline stations across the country are closing down. Those that can obtain gasoline abroad, find it available only at much higher prices. This hurts them competitively, since their main selling point with the public is that they can underprice the major oil companies.

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The problems of the independent segment of the industry were given considerable attention in designing the new oil import program. Indeed, had it not been for the independents, the changes in the program might have been announced much sooner than they were. Our basic objective was to balance the need to preserve the independent segment of the petroleum industry with the desire to create a vigorous domestic industry through incentives for construction of new refineries in the United States and for exploration for new reserves of crude oil. We also wanted to eliminate the many exceptions built into the oil import program and to assure a reasonable stability of prices.

Perhaps the major benefit of the new program is the flexibility that it provides to importers. Marketers will be able to shop for supplies of oil anywhere in the world. They will no longer be dependent entirely on their traditional sources of supply. Moreover, through the availability of free-exempt licenses issued by the Oil Import Appeals Board, independent marketers should have access to products at lower cost than their major competitors for the remainder of this decade. This should provide the time required by the independent marketers to make the changes necessary to protect their market position.

Another benefit of the new program is the incentive it creates for additional output. The independent marketers have depended for their economic well-being on the excess refinery capacity of the major oil companies. Excess definery capacity no longer exists, largely because we, as a Nation, have discouraged refinery expansion and construction. The greatest hope for the independent marketers, in the longrun, will be the incentives provided both independent and major refiners to produce additional supplies of crude oil and products. This, in the end, is the only real solution to the problems the independent marketers now face.

Let me discuss at greater length some of the steps we have taken to protect the independents. In the past, the Oil Import Appeals Board—OIAB—would not distribute import licenses in cases of hardships until September.

They had a small "kitty" that they would allocate after all the hardship reports came in, and there was an obvious lag and in our opinion they were closing the barn door after the horses were let out.

We change dthat in January of this year and they went ahead and they issued their entire year's supply in January of this year, recognizing that this was not going to be enough we got a Presidential proclamation which gave the Oil Import Appeals Board the ability to pass out an unlimited supply to fee-exempt tickets to the independent segment of this market.

That does not mean that the majors can not also go to the OIAB and request a hardship, because we can define hardship not only from the industry but also from the people in this country.

But, unless the major oil company, who has used up his import tickets, which I am told lots of them are in the process of using up, has cleared the market of the import ticket of the independent and enabled him to continue to function as viably as possible during this period of shortage, then they will be denied their request by the Oil Import Appeals Board.

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Outstanding import licenses will be honored license fee. Since the independents hold a large share of those licenses because of the sliding scale and past OIAB allocations, this provides some value to their tickets where none existed previously. The independents will be able to import oil at lower cost than the majors. As a result, the majors should now have greater incentive to trade with the independents.

To provide greater value to the independents' tickets, we have suspended existing tariffs. Had we not done this, the independents' ticket value would have been lower. I do not know how much lower it can get than zero, but it would have been lower. The Oil Import Appeals Board has been given specific responsibility for helping the independent refiners and marketers by issuing fee-exempt tickets.

The Government has begun to allocate its "royalty oil" to independent refineries in need. Under the term of relatively recent lease sales, the Government can collect some of its royalties in cash or in a share of the oil produced on lease lands. In choosing the latter course, it is, in effect, diverting crude oil from the major to the independent refineries.

Senator McIntyre. Is that being done?

Mr. Simon. Yes, sir. It is. To date, my testimony says 60,000 barrels, and they are moving this royalty oil, rechanneling it, I should say. We are researching all the various contracts that are out now on royalty oil, we hope to have upwards of 200,000 barrels a day redistributed to the independent segment of the country that deals with the needy areas.

Senator McIntyre. That was one of the suggestions on Monday last.

I am happy to see that that is being done. That was one of the questions I wanted to ask. I realize that is not going to be the big answer but at least it is a help.

Mr. Simon. Mr. Chairman, as far as the big answer is concerned, we are hitting a lot of singles. We do not have a homerun ball. This power that everybody talks about, giving me to ration or allocate, the only power that I could have to solve this problem, that would solve it, would be if I had the ability to create a barrel of oil or create a barrel of gasoline.

Senator McIntyre. You gather all the singles in you can.

Mr. Simon. That is what we are trying to do.

All of these actions are probably not sufficient to assure distribution of adequate supplies of refinery products to independent marketers and, especially, adequate supplies of crude oil to independent refiners.

It is for this reason that the Government has decided to utilize the authority given it under the recently-enacted Economic Stabilization Act to allocate both crude oil and products to independents, municipalities and other purchasers who have been cut off from their traditional sources of supply.

The Oil Policy Committee has been given general responsibility for drafting an allocation program; the Office of Oil and Gas in the Department of the Interior, responsibility for administering the program. The program adopted by the administration relies on voluntary compliance with guidelines, set by the Government, calling

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for the supply of no less than the proportion of 1971 and 1972 sales to independents and other customers at prices not to exceed posted and rack prices charged by refiners, marketers, distributors and jobbers. Our purpose is to apportion as evenly as possible, any curtailment in consumption that will result from gasoline and distillate shortages. Priority will be given to meeting the needs of farming, other essential industries and State and local governments. A description of the allocation plan is attached to my statement as exhibit A (see p. 346).

The program will apply to all segments of the industry. The oil companies' adherence to these guidelnes will be monitored and, if voluntary compliance fails, more stringent measures will be taken by the administration. We hope and I believe that this will be unnecessary. Our preliminary soundings suggest that the companies are aware of the problems created by curtailments and are willing to continue to provide a fair share of petroleum products to their established customers.

I have talked to three major companies who basically have programs like this already in effect. Perhaps the most critical problem, however, is the supply of sweet crude oil to independent refiners. There is, at present, a general shortage of low-sulfur crude oil brought on, in part, by the requirements of several Eastern States and municipalities that refiners use sweet crude oil to meet air quality standards, even though these refineries are designed to take sour or high-sulfur crude oil. This has diverted sweet crude to the east coast refineries of major oil companies and way from inland independent refineries, many of whom are unable to handle high-sulfur crude oil.

At the same time, the major oil companies have had little incentive to exchange crude oil because the price of domestic oil is now equal to or lower than the landed price of foreign oil. Under Cost of Living Council rules, the majors cannot charge the replacement value—so it is no surprise that the majors have been reluctant to swap United States for foreign crude oil.

The administration is trying to rectify these problems. We are working with the Cost of Living Council to find a compatibility between maintaining stable prices and providing adequate compensation to the major oil companies that do exchange domestically-produced oil for imported oil.

These measures should help to bring about a more equitable distribution of crude oil and products in the short run.

What about the long run? What is being done to solve the basic gasoline and distillate shortages that have created the distribution problems with which we are now concerned?

We have established a license-fee program for crude oil and product imports. This program removes all volumetric quotas on imports and allows free importation of crude and product subject to a fee of 21 cents and 63 cents a barrel, or one half and one and one-half cents per gallon, respectively, after 2½ years.

This is a longrun system which is designed to spur the construction of refineries in the United States. It does this by removing obstacles to acquiring an assured supply of crude oil and by instituting a price differential between crude and products sufficient to guarantee an adequate profit from domestic refining. I am happy to report that,

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since the President's energy message on April 18, a number of companies including Shell, Ashland, the Pittston Corp., and Standard Oil of California have announced that they now plan to build or expand refineries in the United States as long as sites are available.

We intend to help them in this siting problem.

Others have indicated to us that they are seriously considering building refineries here but have not yet made their plans public. In addition, several independent marketers have stated their intention to develop their own U.S. refinery capability, a necessary step if the independent marketers are to become a fully viable entity in the industry.

In each case, however, the decision to build a new refinery is contingent upon a satisfactory solution to the "siting problem," the seemingly chronic inability of the industry to obtain approval to build new refineries in many parts of the country.

Senator McINTYRE. Do you feel that that is a chronic inability. I have been sort of suspecting that they—I know they have been turned down in several areas. I know some States have moved to bar them.

Mr. SIMON. We have laws in several States.

Senator McINTYRE. I wonder if this has not been sort of a shadow, that the oil industry itself has been putting out, not really, not a substantial thing. Do you know that they have been time and time again abandoning plans for refineries?

Mr. SIMON. I know companies and if given some time I could get you the definitive facts on this. They have purchased land. They have paid substantial prices for options on land and they continue to pay these option fees, but just one obstacle after another comes up on the environment issue.

Yes, I do.

Senator JOHNSON. Would the chairman yield?

Senator McINTYRE. Yes.

Senator JOHNSTON. I think that Pittston Refinery that you just referred to is having some difficulties, are they not, not only the United States but the Canadians as well?

Mr. SIMON. I was not aware of the Canadian problem.

Senator JOHNSTON. Isn't it right close to Canada there and the Canadians are saying it is going to ruin their fishing?

Mr. SIMON. Oh, I have been trying to focus on the American problem.

Senator TOWER. They are confronted with lawsuits in some instances, are they not?

Mr. SIMON. Yes, sir, most of them are lawsuits. Just the ones that we know of since tie April 18 energy message are upward of a million and a half barrels a day of production. I am 80 percent positive the others I talk to would surely add at least that much.

We have got the desire here. Now, we have to help them in every way we can to get the siting, the proper places, and educate the public that a refinery is not what it was 25 years ago or even 10 years ago.

We are also taking actions to solve the domestic crude oil shortage by a proposal we are making to the Congress for an exploratory drilling investment credit. This gives a 7 percent tax credit for new drilling, plus a supplementary credit of 5 percent for successful

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wells. We are confident that this program, if enacted by the Congress, will stimulate crude oil production and have a significant impact on gasoline and fuel oil supplies.

Energy conservation can play an important role in stretching gasoline supplies and thus reducing the shortage.

To this end, we will need the cooperation of the Government, industry and the public. For example, the public is being encouraged to minimize its use of automobiles this summer.

According to the Automobile Manufacturers Association, about 56 percent of the cars on the road contain only the driver. This underutilization of cars can be reduced in many cases, especially in metropolitan areas. Carpools and public transportation should be substituted, where possible, for single-occupant cars. Use of smaller cars, with better gasoline mileage performance is another measure the public might take to conserve gasoline.

Additional measures include reducing the use of the automobile air conditioner, keeping tires properly inflated, cutting off motors when stalled in traffic, and avoiding excessive speeds on the highway. I am attaching as exhibit B a list of conservation measures that can be taken to help reduce the demand for petroleum products.

I am sure you gentlemen could triple that list with ease.

Some have expressed concern that the price of gasoline will rise to astronomical levels. This concern is unfounded. There has been a substantial rise in foreign crude oil prices in the last 3 years and we will probably experience additional price increases in the future. But crude oil accounts for only a small fraction of the costs of producing gasoline. For instance, if the crude oil price were doubled, this would increase the price of gasoline by only 8 cents a gallon.

One of the largest components of the price of gasoline is represented by Federal and State taxes. I break the components down in that paragraph.

It is interesting to note that in England, the retail price of regular gas is 64.5 cents a gallon. Basically in Europe all the prices are much higher because 75 percent of it is in taxes and not in the stream of producing, refining, and distribution.

Gasoline and other prices will probably increase over time. This would provide benefits to the Nation:

It will help to save some independent gasoline dealers and refiners who are otherwise going to go out of business.

It will encourage Americans to conserve on gasoline.

It would also help to provide the economic incentives needed to speed up the construction and expansion of badly needed domestic refinery capacity.

A major effort is being made now, and for the rest of the summer, to produce more gasoline. This will have the effect of reducing the yield of fuel oil below that which was being produced a few months ago. The question is whether, as a result, we will have adequate stocks of fuel oil for next winter.

In January, the President removed all restrictions on the importation of No. 2 fuel oil. Partly for this reason, stocks of distillate fuel oil are now higher than at this time last year. Imports of fuel oil continue at high levels. We are now importing over 200,000 barrels per day. This, combined with domestic production, gives us a total

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projected supply that is adequate to meet our needs this summer and, barring extremely cold weather, to make it through next winter.

In addition to this, we are confident that the recent changes in the oil import program will help us to attain needed levels of imports of fuel oil. Major oil companies can now bring in any amount of fuel oil they wish by paying a license fee of 15 cents a barrel. The independents can, effectively, bring in fuel oil without paying any fee at all.

Further, I believe there is adequate refinery capacity overseas to produce the fuel oil required by the Unitd Stats, particularly if U.S. refineries maximize their yields of gasoline.

In conclusion, let me say that I am basically opposed, as I am sure are most of the members of this committee, to the needless injection of Government regulation and control into any industry, particularly where there is every evidence of intense and healthy competition. I do not want to take any step which would discourage private initiative.

I believe the new oil import program provides the proper incentives for such initiative.

Of course, I realize that the new program has not solved all of the problems. We did not expect that it would or could because there is just no way that any program can create a barrel of oil. In the long-run, however, I feel this program will help create a vigorous domestic petroleum industry.

At the same time, in the shortrun, I think we are in a situation in which we need to make decisions on priorities. We cannot afford to let crops go unplanted or unharvested for lack of diesel fuel for our tractors. We cannot let our vital industries close down. We cannot endanger public health or safety. And, finally, we should not let the independent segment of the oil industry, which provides competition in the marketplace, be forced to shut down.

All of us here would be delighted to respond to any questions that you have.

Senator McIntyre. Let me say, Mr. Secretary, that is a good, all-inclusive statement, I think. It looks to me like you gentlemen have been doing your homework, looking for all those singles you are trying to find.

I would like to ask a few questions. Do you have any firm estimate or any good estimate of when you think this voluntary program will become effective, Mr. Secretary?

Mr. Simon. We will publish this today. You will have testimony tomorrow from Mr. Ligon, who is the head of the Office of Oil and Gas in the Interior Department who will be in charge of the implementation of this program. He is prepared to send out the telegrams and wires to the various segments of the industry with our government guidelines.

Senator McIntyre. Why do you think a voluntary program will be effective? Shouldn't the program also contain some mandatory enforcement features to insure that the oil industry will comply?

Mr. Simon. I think the economic stabilization program gives the mandatory flavor to this. If the voluntary program does not work, then more stringent measures could be taken. I would not like to move to the stringent measures right at the outset because you know the distortions that creates in the industry. I think we can get the

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job done with this policy that we have here. That does not mean we are going to solve all our problems, because it does not solve the supply problem. I do not want to be moving shortages from one area of the country to the other. I do want to identify priority areas. Food is certainly a very important thing and our farmers need their distillate.

Senator McINTYRE. In order to quiz you pretty thoroughly on this question, it would have been helpful if we could have gotten this statement a little earlier than 5 minutes before this hearing started.

I understand there were some changes and some last-minute decisions.

Mr. SIMON. Not only that, I was only put in charge on Saturday, and I made one of my few trips last weekend.

I came back Sunday to work on this. It looks very simple, just three pages, but I want to tell you the agonies that went into drawing up this.

Senator McINTYRE. Mr. Secretary, what about the average citizen who needs gas for his car, will he be able to get a sufficient supply this summer in your opinion?

Mr. SIMON. There are going to be spot shortages in the country as I explained.

Our inventories of gasoline are presently 12 percent below a year ago. Twelve percent is about 1 million barrels of gasoline, which is approximately 3 days' supply.

If the American people will respond to just some simple conservation measures over the next few months as refineries are producing the gasoline that is so desperately needed, I believe most Americans will be able to get the gasoline that they need.

I am not suggsting a drive from the east coast to the west coast. This will not alleviate the problems we have due to the distribution systems in some areas of the Midwest and the Southeast.

Senator McINTYRE. It is obvious you do not, but do you feel that detailed rationing will be necessary?

Mr. SIMON. I do not.

Senator McINTYRE. All of the evidence that we have had so far indicates that we have got this immediate problem that you have been dealing with and that is this summer, what you have said about No. 2 oil was hopeful, but I have heard that song before, you know.

I worry about that. Right now, what do you think of the summer of 1974?

Mr. SIMON. Let me address the first question you asked on the distillate for next winter.

Our present inventories are 12 percent above a year ago. I have to wait one more month, because our inventories right now on distillate are 110 million barrels versus 113 in 1971.

Then there was a big jump in 1971 which brought it up to 125 million. We feel that imports and production for this next month are going to bring it close to that figure, and 1971 is the year that we must use in our compasion because 1971 we got through going in with 125 million at this time of the year.

So, I am optimistic on next winter.

As far as next summer is concerned, I really could not answer that. It would be guesswork on my part, Mr. Chairman.

Senator McINTYRE. What is the order of allocation?

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You have talked about the farmer.

Mr. SIMON. We did not attempt to identify an order—if I could have thought of a better way than 1 through 8, I would leave it off completely.

I think all of these priorities are important and we are asking the refiners and the major integrated companies as well as the marketers to focus their attention on these areas of priority for our country.

Senator MCINTYRE. So they are all of equal priority?

Mr. SIMON. I would say certainly—very definitely, because you are going to find that farmers in some areas do not have a problem but State and local governments do in that area.

Senator MCINTYRE. I notice you are going to recommend some further benefits to the industry to get them going on more exploration and all that.

But I also notice—and, thank goodness you are talking about the independent, that business businessman that we have heard so much from—is this going to represent any saving to him? Let us take the case of Arango Oil. This is up in New Hampshire. Under Phillips as a supplier, 37 stations were put in over a number of years and this became one of his big independents—you know, the small type of station.

Suddenly Phillips Petroleum is cutting him off at the end of this month.

He has desperately within the last 2 or 3 months been trying to find another supplier. But there have been no takers.

Is there any help in this allocation for this fellow, or is he caught?

He has already been to court and has gotten nowhere.

Mr. SIMON. We have established a base period and that base period is the last quarter of 1971 and the first 9 months of 1972. Where the barrel of crude starts in our economy, whether it is imported or refined, it must go through the same channels and honor the contracts that were in existence at that time on a percentage basis, of course, not on a volume basis because of the supply problem today.

Senator MCINTYRE. In effect, he is given a lease on life.

Mr. SIMON. Not to the extent that he was, but a percentage of the extent that he was; yes, sir.

Also we deal with the spot market in this, because we had so many independents that were in the spot market entirely and depended for their supplies on this economic margin of the industry. People who were dealing in the spot market will be putting the same percentage into that market which they did in the base period.

Senator MCINTYRE. Is this allocation taking place today, going into effect today?

Mr. SIMON. The Office of Oil and Gas will be sending the wires out today. This, as I say, is voluntary. I would expect the news of this will travel very quickly.

Senator MCINTYRE. Senator Tower?

Senator TOWER. Mr. Secretary, on page 4 of your testimony you note that the tax and other economic benefits available to refiners in the Caribbean and in Canada have been more lucrative than similar provisions available in the United States.

Can you tell me a little something about those provisions that make it more attractive to build refineries in those areas?

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Mr. SIMON. Well, what we have done to offset this, of course, is——

Senator TOWER. The investment credit?

Mr. SIMON. No. We are granting 75 percent of the through-put of a new or expanded refinery license fee tickets for 5 years.

This is what we believe, and the companies have told us, has precipitated decisions to build here in this country. I think probably the major reason that we have been exporting our refinery capacity is the siting problem and the delays and the expense involved, as I explained before.

There are also tax considerations where, in the Caribbean you pay lower taxes for a period of time or just lower taxes, period.

Some have expressed to us that that is offset by having to have maybe more laborers in their refinery than the people who would work here in this country on a productive-type basis.

Senator TOWER. The administration's new tax proposals includes a provision to prevent the offset of intangible drilling cost against income from other sources.

The explicit purpose of this provision is to prevent passive investors from investing in these types of enterprises purely for tax purposes.

These investors have been the basic source of drilling funds in the past and the result of curtailng this investment would seem to be the further aggravating of the domestic fuel shortage.

What is the Administration's program for stimulating investment in exploration as an alternative to the present method?

Mr. SIMON. I have not had an opportunity to talk to that many independent producers since we announced the program but I have talked to several. I do not believe that this has destroyed the incentive for investors who seek a high rate of return if indeed they are fortunate enough to hit on an exploratory well.

In 1971 and 1972, 83 percent of all well drilled in the United States were dry holes. Therefore, an investor would in those years be able to write off the whole investment.

If you put a $100,000 in a well and it was dry, which the chances are 5 to 1 that they are, he would write it off.

If he hits it is more a postponement of the total intangible drilling than a negation of it.

It is postponing it until the income comes in. He still gets that intangible drilling credit but it is applied for equity reasons, as Secretary Schultz explained at great length, for equity reasons against the oil income.

Senator TOWER. I get reports from my State that the effect of the April 30 cutoff date for allowable use of the intangible drilling cost offset against other sources of income is that no one can raise any further money from passive investors, and drilling in Texas is, in effect, coming to a halt.

Would the Treasury be willing to consider moving the effective date of their proposal forward to a later time until Congress has studied these proposals?

It is having a very deadening effect on oil and gas exploration with the April 30 date in the proposal.

Mr. SIMON. I would like to assess that situation and talk with the Secretary, Senator.

Senator TOWER. You may supply the answer for the record, if you would.

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Mr. SIMON. Yes, sir.

Senator TOWER. I note that you have made reference to the investment credit, but will this really bring to bear on the exploration process these private funds for smaller drilling and exploration companies?

I can see the investment credit helping the large company which can raise funds in the capital market, but what about the independent segment of the industry?

Mr. SIMON. I definitely believe it will.

I met with an independent producer yesterday. He told me that the investment credit was the biggest incentive he had seen. He has been in the oil business all his life, and in your State, Senator Tower. Also he pointed out another area that would be good as far as our energy problem today is concerned. That is wells that might have been capped. They will now go after with that extra 5 percent for a successful well. They will be producing more oil and gas as a result of this 5 percent because they will be going to secondary recoveries.

Senator TOWER. I was not asking you about secondary recovery. Does your proposal cover new secondary recovery in the investment credit?

Mr. SIMON. This is only for exploration 2 miles away from an existing well.

Senator TOWER. Why couldn't it apply also to secondary recovery to make that more profitable?

Mr. SIMON. Well, that was discussed and not taken into consideration in the final analysis.

Senator TOWER. Would you oppose such a proposal?

Mr. SIMON. I would be glad to respond to that in the same manner as your other question, because that is a fundamental policy decision.

Senator TOWER. Would you supply that for the record?

Mr. SIMON. Yes, sir, I will.

[The information follows:]

QUESTIONS ON TAX LAW CHANGES AFFECTING OIL DRILLING TO WILLIAM E. SIMON BY SENATOR TOWER

1. It is my understanding that many independent drillers in Texas have suspended their operations because of the proposal by the President to dismantle the intangible drilling allowance, and, particularly, the fact that the suspension would be retroactive to April 30. Would it not make sense to change the suspension to a later date, notably the date at which the tax reform legislation, if passed, is enacted?

2. Does the 7% tax credit on drilling, with the additional 5% tax credit for successful wells, not apply to secondary recovery?

RESPONSE TO QUESTION ABOUT WHETHER EXPLORATORY DRILLING INVESTMENT CREDIT APPLIES TO "SECONDARY RECOVERY"

It is important to distinguish between a "second effort" and "secondary recovery." The additional 5 percent credit for a successful well is an extra incentive for drillers to undertake a "second effort" to make a well productive, whether through additional drilling or other techniques. This is consistent with the purpose of the credit, which is to promote the discovery of additional reserves.

"Secondary recovery" is a term with varied meanings. One generally accepted definition is the use of techniques, such as the injection of liquids or gases into the oil reservoir, in order to move the oil within the reservoir to the producing interval from which the oil is being pumped. These techniques can be used early

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in the life of the well to maintain pressure in the reservoir and thus to enhance the rate of production. But such pressure maintenance is usually distinguished from true secondary recovery, which involves the application of secondary recovery techniques at the time when a well is approaching, or has reached, the end of production under regular production methods.

The proposed drilling credit is limited to exploratory wells and would not apply to secondary recovery operations on an existing well. We have limited the credit to exploratory wells because the most urgent long-term need is to encourage the discovery of new domestic oil and gas reserves and because existing tax incentives and sources of financing are already adequate for the less risky production well that simply extends production from a known reservoir. Secondary recovery operations, while not entirely risk free, are more analogous to production well drilling than to exploratory well drilling. Moreover, difficult administrative problems might arise in distinguishing pressure maintenance from secondary recovery efforts. We would thus oppose extension of the credit to secondary recovery operations.

Response to Question Respecting Effective Date of Tax Shelter Proposal

As presented on April 30 to the House Ways and Means Committee, the Treasury Department's tax shelter proposal for limiting to some extent the deduction of certain expenses, including intangible drilling costs, provided that it would be effective with respect to transactions entered into after April 30, 1973. Our purpose in proposing that effective date, of course, was to prevent investors from rushing into transactions before the proposal would become effective. Such hastily made investments are often uneconomical. Moreover, we were concerned that if the volume of such investments were substantial, they might effectively undermine the purpose of the proposal.

Nonetheless, the proposed effective date was the cause of considerable concern and uncertainty among investors in the affected sectors of the economy. On June 1, 1973, Representatives Mills and Schneebeli announced that, in general, they did not expect any legislation dealing with tax shelters to apply to the period prior to the announcement by the House Committee on Ways and Means of its decision on such legislation. Subsequently, the Treasury stated that it supported that announcement. These announcements are attached for insertion in the record.

Department of the Treasury News Release, June 4, 1973

The Treasury Department today issued the following statement:

Treasury is pleased with the statement issued June 1, 1973, by Wibur D. Mills, Chairman of the House Ways and Means Committee, and the Committee's ranking minority member, Herman T. Schneebeli, indicating their expectation that the Committee will report a bill on tax shelters this year.

The Treasury Department had proposed an April 30 effective date in its original tax proposal for certain limitations on artificial accounting losses. However, Mr. Mills and Mr. Schneebeli indicate their expectation that the effective date for any new provisions would not apply before the date of announcement of the Committee decisions, and would not affect deductions occurring in 1973, subject to possible exceptions if there should be abnormal transactions. That general approach to effective dates would be acceptable to the Treasury. The Treasury proposal with respect to artificial accounting losses is accordingly amended to conform to the approach outlined by Mr. Mills and Mr. Schneebeli and to delete the reference to an April 30, 1973 effective date.

Joint Statement of Congressman Wilbur D. Mills, Chairman, and Congressman Herman T. Schneebeli, Ranking Minority Member of the Committee on Ways and Means, Regarding the Effective Dates of Proposals Dealing With Tax Shelters

The Honorable Wilbur D. Mills, Congressman from the 2nd District of Arkansas, and The Honorable Herman T. Schneebeli, Congressman from the 17th

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District of Pennsylvania, Chairman and Ranking Minority Member, respectively, of the Committee on Ways and Means, U.S. House of Representatives, today issued the folowing joint statement:

We have been informed that the ffective dates proposed by the Treasury for their proposals dealing with the problem of tax shelters have been a matter of concern to the industries involved. We thought that to some extent we might be able to clarify the situation.

The Ways and Means Commitee is considering a variety of proposals dealing with the problem of tax shelters, including the proposals presented by the Treasury Department. We expect that a bill will be reported on this subject this year. Because there are a number of alternative ways of dealing with these problems, however, any effective date provisions will have to be worked out in connection with the specific provisions reflecting the Commitee's decisions in these areas. Based upon the past practices of the Ways and Means Committee, we would expect that the effective dates for the new provisions generally would not apply before the date of the announcement of the Committee decisions and in any event (in the absence of year-end abnormal transactions) probably not in the case of deductions occurring in 1973. However, if there should be an unusually large volume of transactions in the period immediately ahead, it might be necessary for the Commitee to apply the new provisions to some extent during this period.

Senator TOWER. It seems to me that is a good source of additional energy. There should be some incentive to go back and recover some of this crude that heretofore has not been economical to recover.

Thank you, Mr. Chairman.

Senator MCINTYRE. Senator Johnston.

Senator JOHNSTON. The tax credit that is outlined here, does that apply to foreign drilling as well as to domestic drilling?

Mr. SIMON. No, sir.

Senator JOHNSTON. That is only for domestic drilling?

Mr. SIMON. Yes, sir.

Senator JOHNSTON. Mr. Secretary, the Interior Committee passed out a fuels allocation bill today, and it may, as I understand it, be tagged on to some bill this morning or this afternoon for consideration by the Senate today.

Now the chief difference that I can ascertain on an economic basis between that bill and the voluntary program that you are talking about, in addition to the fact that one is voluntary and one is mandatory, is the fact that under your program you make the refiner, the distributor, and so on, sell to his customers as they existed during the base period, the same percentage that he sold to them, whereas under the program passed out this morning, it would require each distributor to sell to independents in general the same percentage and would give him some leeway in choosing which ones to sell to.

Do you understand the difference?

Mr. SIMON. I think so. What we are attempting to do is not only identify classes of trade which are your independent segment, but also your classes of customers. Because in just dealing with the independents, it comes to mind I would hate to see the product just go to independent gasoline stations and have to have the farmers pull up their tractors and fill it up with premium gasoline. You know, that is happening, Mr. Chairman.

Senator JOHNSTON. There is separate authority for allocation of fuels to farmers, but just dealing with the problem of the independents, my question is, is it better to require the refinery, and so on, the distributor to deliver to the same independents that he delivered to in proportion, or is it better to give him the requirement that he sell that

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proportion that he sold during the base period but give him the leeway to pick which independents he wants to sell to?

Do you follow me?

Mr. SIMON. There is a very fine distinction there. I would like to see him distribute to the independent segment of the market. It shall be done on the same basis as during the base period that we chose where everyone appeared nearly satisfied. I prefer on a voluntary basis. You are going to have problems if you make it mandatory. I just shudder to think of the problems if we take actions which conflict with the sanctity of the contracts. That is just the first thing I can hink of. I worry about the contracts that are in existence today, and any mandatory power that would attempt to negate the sanctity of the contract.

Mr. JOHNSON. When you read the attachment, you will see that there is the flexibility built into the system. It is possible for a major oil company to exchange obligations with another major oil company if it felt that it could better supply a new customer rather than one of its old customers. This is especially important if it has withdrawn its retail outlets from a particular area.

You must have flexibility. The only intent of this program is to have the initial obligation, at least, rest with the supplier during the base period, so that supplier, say, a major oil company would know that he had at least primary responsibility for securing supplies to that independent.

Senator JOHNSTON. What percentage of your independents now have long-term contracts and what percentage of them still rely on spot purchases?

Mr. SIMON. I don't know that those facts are really available. I can give you a guesstimate, Senator, and that is all it would be. I have met with over a thousand independents since January to better understand their problems in the Treasury Department. I would say that spot purchases are in the majority.

Senator JOHNSTON. In the majority?

Mr. SIMON. Yes, sir.

You take the independent component of this industry and I think it is a safe statement there are 232,000 gasoline stations in the country and I think that that would weigh it into the majority.

Senator JOHNSTON. Without some kind of action on the part of the Congress or your voluntary program, if it works, most of those would probably go out of business?

Mr. SIMON. Most?

Senator JOHNSTON. Most of the independents?

Mr. SIMON. I would hope that that would not be correct.

Senator JOHNSTON. I mean without some action. The testimony we heard here a couple of days ago said that the only way to get gasoline for an independent if he does not have a long-term contract, is if he has got some supply of crude—that is just about it, if he can import some in some kind of way. They said that is just about it.

Without some action on our part, those that rely on spot purchases would go out of business.

Mr. SIMON. A lot of them would, that is correct, and that is why I believe that this voluntary program, if we can get it into place immediately is best. I feel that a mandatory system, with all the regula-

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tions and bureaucratic morass that you would have to set up under it—believe me, in the final analysis would not work. You know what controls are like. They are just a nightmare. You would have me back up here next week, as one Snator said, burning me at the stake. I hope not with gasoline.

Senator JOHNSTON. Thank you, Mr. Chairman.

Senator MCINTYRE. Senator Bennett.

Senator BENNETT. No questions.

Senator MCINTYRE. Senator Brooke.

Senator BROOKE. Thank you, Mr. Chairman.

Mr. Simon, let me first say I am very much impressed with the statement that you have submitted and read to the committee this morning. It shows an unusual grasp of the subject. I think it is clear and I think it is comprehensive, and I am very, very pleased personally that you have indicated such a high sensitivity to the problems of the independents.

Initially, I want to thank you for meeting with a group of independents, a very successful meeting, and I think it has been helpful to you in understanding some of the problems of the independents.

I take it that this is the administration's plan to allocate petroleum products pursuant to the McIntyre amendment to the Economic Stabilization Act; is that a fair description of what you have presented this morning?

Mr. SIMON. The Eagleton amendment, sir?

Senator BROOKE. The Eagleton amendment.

Mr. SIMON. I am sorry, Mr. Chairman.

Senator MCINTYRE. The Eagleton amendment as modified by the McIntyre amendment. Eagleton went all products.

Senator BROOKE. You should let me say that.

Senator MCINTYRE. Call it the McIntyre amendment.

Mr. SIMON. The McIntyre amendment.

Senator BROOKE. Senator McIntyre has done a great deal of work in this whole field of oil that not only this committee is grateful to but the Nation.

Certainly, we in New England are very grateful to him for what he has done.

Initially, this trip that you took to the State of Washington which you described here and Secretary Simon has spoken relative to the refinery there and the unwarranted fears that many of us have in New England, I find that very interesting.

Is there some refinery, say, that we could invite the entire New England delegation to visit that might persuade the New England delegation that a refinery may not be the worst thing in the world for New England, because we have had consistent problems, as you well know, both with the lack of availability and the high cost of No. 2 fuel oil, gasoline and the like. We had this problem at Machiasport, you will remember.

Then we began to pass the buck around form Maine to New Hampshire to Massachusetts, Rhode Island and Vermont, and none of the States really wanted to accept a refinery because of conservation considerations.

I just wondered as you and Senator McIntyre had the exchange, whether this might not be a good idea, that the technology has improved.

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Senator McIntyre pointed out that the technology he witnessed was 10 years old technology, and you indicated that the technology has improevd considerably since that time.

Could we arrange a meeting by the New England delegation and others who might want to attend, to visit one of your refineries with the latest technology so that this might be of some assistance?

Senator JOHNSTON. If the Senator would yield, and if the Sectetary would excuse my interruption: I would like to put in a plug to come to see Louisiana refineries and along with it to see some of our offshore drilling out there on the Outer Continental Shelf. I think that is an equally important part of the energy shortage. I think you will find that the fishing industry, for example, when you drill out there on the Outer Continental Shelf has actually grown up sharply, seven times in tonnage since the time they started drilling out there.

Mr. Secretary, I just gave you an idea about how to answer that question.

Senator BROOKE. I certainly appreciate it.

I always like to come to New Orleans, anyway, personally.

Mr. SIMON. I hope you will take me with you.

Senator BROOKE. The offshore drilling is a very important part of this whole question.

Senator JOHNSTON. I will set up a trip if you want to put it together with the New England delegation.

Senator BROOKE. Arrange better weather than you did when I came to the Super Bowl. That is important, because we talked about offshore drilling of the islands off of Massachusetts, for example, which has created a great stir up there. I happen to have summered on Martha's Vineyard, and it created a great stir in my own mind very frankly, about these big drills and all the problems that one think of when they think of refineries and drilling.

This might be a very good suggestion and I hope you might follow through on that.

Mr. SIMON. Yes, sir.

Senator BROOKE. I have 4 or 5 questions and I will not hold up the Chairman, because I know he wants to get back to you.

I will submit those questions for the record. I do refer you to page two of your appendix, as I recall, the paragraph dealing with "The Office of Oil and Gas will receive complaints from anyone who feels he is not receiving proper allocation of supplies."

The last one says "The Office of Oil and Gas will verify the accuracy of complaints against the supplier and if justified impose mandatory allocation on the supplier."

Could you explain that more in detail?

Mr. SIMON. This is part of the Eagleton-McIntyre amendment that cites the mandatory program. First we will hold public hearings—arranged by publication in the Federal Register. Then we will make a decision after comments are received.

That is the process for an individual or a group of individuals from an area who are expressing some problems and hardship they want to address.

Senator BROOKE. Let me submit this question for the record.

Finally, Mr. Secretary, we have been hearing and reading in the papers that we have such an energy crisis that the Nation should be

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aware there will be a shortage, if not a severe shortage, of gasoline in the summer of 1973. Many have reacted to it, some have even gone into hoarding of gasoline.

Do I understand you clearly that it is your position that there is no serious shortage of gasoline for the summer of 1973 in this country, anywhere in this country?

Mr. SIMON. No, I cannot say that.

There will be serious shortages in certain areas of this country. The midwest farmers are today experiencing this serious shortage.

Senator BROOKE. Is that a distribution problem?

Mr. SIMON. Yes, sir, it is.

Senator BROOKE. Can the administration do anything to correct that?

Mr. SIMON. This is one of the processes, going back to your former question, in my many testimonies in the last few weeks, I have gotten very useful suggestions from our friends in the House of Representatives and the Senate as to how better we can do this.

Senator Ribicoff suggested this appeals mechanism. It will require some time, but it gives us the ability to respond to problems as quickly as possible.

Senator BROOKE. Are the midwest farmers the only ones that in your opinion will experience a shortage this summer?

Mr. SIMON. No, sir, we have gasoline problems in the Southeastern area of this country, mostly affecting the independent gasoline stations there.

There will be some problems in the Northeast sector. The refineries there only produce about 24 percent of the demand in the East. You have got a refinery problem and you have got a distribution problem. There is no instant solution to that. All you can attempt to do is to identify them and move as quickly as possible to distribute and share the shortage, if you will.

Senator BROOKE. But you do believe that with your distribution mechanisms that you will be able to share the shortages nationally?

Mr. SIMON. We hope to alleviate the situation; yes, sir. That is correct, Senator.

Senator BROOKE. Are we being overly-alarmed by what we have been reading, or would you say this is a real fear, a real danger? I am trying to get the degree of it.

Mr. SIMON. Let me give you an example. Right at present our gasoline inventories are in the low 180 million barrel range. Experience shows us that somewhere between 180 and 165 million barrels of inventory will present problems, spot shortages.

Anything below that, the problems increase in severity.

Senator BROOKE. Thank you very much, Mr. Secretary.

Senator MCINTYRE. Let the record show for the benefit of the Senator from Massachusetts on that trip to Bellingham, the Secretary was with us and also Mr. Wakefield, too, and that the good Commonwealth of Massachusetts was represented by Congressman Silvio Conte. You know Congressman Conte and myself have been sort of the ad hoc chairmen of the whole New England delegation.

I have a New Englander's concept even in my advanced age of this country of ours. At one time somebody said, would you go to Yuma to see the Cheyenne Helicopter; another time to Bellingham to see

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the Arco Refinery, and on both occasions, I associated them with the Mississippi River.

Yuma—and I found myself almost paralyzed—it was almost three steps from Mexico, and Bellingham, Wash. is up in the very northeastern corner, 3 or 4 miles from the Canadian border.

I think if they have a clean refinery down in New Orleans, that will be a far better place to go to, because that was a long, tough trip.

Senator BENNETT. At this point, I think the record should contain a classic story. A friend of mine who lived in Boston drove out to Salt Lake and he was asked how did you go? He said, "I went by way of Dedham."

Senator BROOKE. Dedham is about 20 miles outside of Boston.

Senator MCINTYRE. Just a few more questions, Mr. Simon.

Again I was coming in here loaded with the idea that I wanted to get down to specifics, but your statement and your plan here is about as specific as it can get.

On page 2, the next to the last paragraph regarding the establishment of prices. Doesn't this allocation program negate several provisions of the mandatory price control program of the Cost of Living Council by allowing prices under this allocation procedure to be based on new contract prices and this will mean, will it not, substantial cost increases?

Is that true?

Mr. JOHNSON. No, I do not believe so. All that the provision there about prices states is that there shall be a limit on the prices that the major oil companies can charge the independent marketer, and that that limit will be the price that that major oil company charges to his own retail outlets.

Now, the major who is subject to price controls is now allowed to increase his prices as long as he doesn't exceed a weighted price level for all of his products of 1 percent cost justified or an additional 0.5 percent that is also cost justified. It is quite conceivable that a major oil company might decide to put all of that price increase onto his sales to the independent marketer. It is precisely this reason that we have included that section there, to restrict the price, so that we do not have an excessive price to the independent marketer.

There is no conflict between the two.

Senator MCINTYRE. In answer to a question of Senator Brooke, regarding shortages, you indicated the Midwest would probably be feeling the effect of some of these spot shortages.

How about New England?

Mr. TRENT. Mr. Chairman, I might deal with some of the specifics in the numbers that we do have available.

In looking at New England and particularly along the east coast where the figures are currently aggregated in dealing with the states that extend from Florida up to Maine, we are very disturbed at this time to see that currenly we are 3.1 million barrels below in inventory the lowest point of 1972. About a third of the refining capacity that is required for products in the east coast is located along the east coast.

The remaining supplies are received from primarily the gulf coast of Texas and the gulf coast of Louisiana.

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Unfortunately, in putting together the three different areas, the supplies are also low in terms of inventory in these two areas as well. So, as you put the three together, you are about 4.5 million barrels below the lowest point of 1972 which was reached at the end of July and toward the first of September.

We are concerned because, as the east coast does have additional problems in fuel, they will turn to two areas that currently do not have large inventories to back them up.

I should also point out that most of the supplies that are used in the summertime come from production. We have hoped to encourage industry to extend and increase the production of gasoline in the months of April and May, as they move in to the higher demand period.

Traditionally, the level of production is about 47 million barrels in the month of August. The figures that we have for the month of April indicate that, for the first time industry has been moving very quickly to increase gasoline production, 2 weeks ago about 47 million barrels, just this past week at a level of 45.5 million barrels.

Unfortunately, demand at the same time has been going up and we are not increasing our inventory at the rate we would like to. On the basis of statistics, we are concerned, and we are following and hope that the plan outlined by Secretary Simon will be a basis for a better allocation between the 14 different districts in the United States.

Senator McINTYRE. Will it be part of your plan, knowing of this weakness that you just described, to try to bolster that weakness?

Mr. SIMON. I think the weakness can be bolstered in a number of ways.

First, in increasing the production of gasoline, we can rely more on imports of distillate fuel. Along the east coast it is much easier to bring in distillate fuel because some is available in the world market and transportation problems are much less into the east coast than into the Central part of the United States.

As a part of our plan, we are interested in seeing the different refiners, wholesalers, and distributors put the same portion of their supply into the States that they have in the past. We will be watching and monitoring to see that supplies do flow on a State basis as we look at the development of the supply and distribution patterns this summer.

Senator McINTYRE. Mr. Secretary, shifting over to heating oil, which is one of my constant worries, it would be appreciated if you would clarify one point of this new important system for the record. Several days before the President's tariff system was announced, I received information from what I considered extremely reliable sources that section 30 of the oil import regulation dealing with home heating oil imports into the east coast would be increased from 50,000 barrels daily to 100,000 barrels daily.

However, when the President's Energy Message was released, the home heating oil import allocation remained at the old level of 50,000 barrels per day.

Would you explain in detail why the apparent decision was made to reverse the earlier decision to increase this import level, or earlier information would probably be a better question that I received.

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Mr. SIMON. The extremely responsible information that you received neglected to tell you about the change that occurred after that.

I am sorry. We wanted to structure a new mandatory oil import policy to get stability and the ability for long-range planning in the petroleum industry. In this way the industry would know where they stand. We wanted to wipe out all the exceptions that had marked this program for so many years. We wanted to try and "grandfather out" every single exception that had been put in place. At the end of the 7-year period during this "grandfathering" and phasingout period we would have a simple system that everyone would understand.

Now, the New England area received 50,000 barrels a day under this special consideration. We had considered, due to your very special problems in that area, going to 100,000.

It was suggested, perhaps even larger. We were advised by counsel that, to just make the one exception—and here we were trying to kill the exceptions—the one exception for the New England area, raising them from 50 to 100, viz-a-viz, the old program would leave us open to (a) suits, and (b) the very real problem of having everybody else come in who had very real problems, saying you did it up there, we want it here. What we did, Mr. Chairman, was to design the program for New England around the Oil Import Appeals Board where we will be able to make up their hardship problems to a greater extent very flexibly and very quickly.

I think we will accomplish the same thing as this stated 100,000, because it is the same license fee exempt tickets that will enable the importers to bring in fuel oil next winter at a cheaper level than they did heretofore.

Senator MCINTYRE. It is my understanding under the new import program that holders of import tickets for 1973 will be allowed to bring in the same amount for the next four years without having to pay a tariff on these imports.

What will be the cost in loss of Federal revenue, and isn't this loss in Federal revenue a windfall profit for those importers who had 1973 import privileges?

Mr. SIMON. We commence phasing out in 1974, next year. There is a sliding scale. In one of my former testimonies I have here, it goes down to zero in 1980. It is difficult to estimate a revenue effect. The estimate was $90 million that the Treasury and the Energy people in the Interior Department came up with.

However, these fees will bring in some revenues which will offset part of the revenue loss because of the suspension of the tariff.

The percentage reduction in initial exempt allocations, it runs 10 percent for the first 2 years, 15 percent for the next 3, 20 in 1979 and then we phase it out in 1980.

Senator MCINTYRE. We would like to have the exact figures for the record, please.

Mr. SIMON. Of our revenue estimates and how they were arrived at?

Senator MCINTYRE. The question, as asked, the total loss of Federal revenue estimate and the windfall profit for those importers.

Mr. SIMON. Yes, sir.

[The information follows:]

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THE DEPUTY SECRETARY OF THE TREASURY,
Washington, D.C. May 10, 1973.

HON. THOMAS J. MCINTYRE,
U.S. Senate,
Washington, D.C.

DEAR SENATOR MCINTYRE: During our testimony today you asked what the anticipated loss in revenues will be as a result of the changes in the Mandatory Oil Import Program. We estimate that for the rest of Calendar Year 1973 these losses will total about $90 million. We have also made estimates on a fiscal year basis. A table containing these estimates for Fiscal Year 1973, 1974, and 1975 is attached.

Sincerely yours,

WILLIAM E. SIMON.

LOSS IN TAXES BECAUSE OF CHANGES IN THE OIL TARIFF SCHEDULE

Fiscal year	Reduction in tariffs	Increase in license fees dollars in millions)	Loss
1973	230	$192	38
1974	268	73	195
1975	307	183	124

U. S. TREASURY,
Washington, D.C. May 9, 1973.

HON. WILLIAM V. ROTH, JR.,
U. S. Senate,
Washington, D.C.

DEAR SENATOR ROTH: This is in response to your letter of April 18, 1973 in which you requested information concerning the effect on revenues to the Federal Treasury as a result of changes in the Oil Import Program.

Under the old tariff system it is estimated that revenues to the Federal Government would have been $175 million for fiscal year 1973. The new Import Program will probably result in a reduction in revenues of $51 million or a total revenue of $124 million. A summary of our estimates are as follows:

U.S. REVENUES IN MILLIONS OF DOLLARS AS A RESULT OF NEW OIL IMPORT PROGRAM

	Fiscal year				
	1973	1974	1975	1980	1985
Before proclamation 4210	175	253	343	430	526
After proclamation 4210	124	28	178	1,270	1,609
Net gain/(loss)	(51)	(225)	(165)	840	1,083

We hope these estimates are satisfactory for your needs.

Sincerely yours,

WILLIAM E. SIMON.

Senator MCINTYRE. Mr. Secretary, is it correct that this newly announced allocation program that you have announced here is going over the wires now is based on authority granted to the President under the amendment to the Economic Stabilization Act dealing with shortages of petroleum products?

Mr. SIMON. Yes, sir.

Senator MCINTYRE. Did you know that this amendment was opposed by the administration?

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Mr. SIMON. Well, basically, this administration abhors Government controls as you have heard on many occasions from many administration witnesses. So, it is certainly not a surplus. It is, with a great deal of reluctance that I sit here and announce another complicated mechanism that tends to confuse the industry in this great free enterprise system we have in America. I refer to my former remarks to Snator Johnston, the voluntary versus the mandatory.

But in the final analysis, the President did sign the bill.

Senator MCINTYRE. Senator Johnston.

Senator JOHNSTON. No questions.

Senator MCINTYRE. Thank you very much, Mr. Secretary, and your associates.

[The complete statement, with attachments, of Mr. Simon follows:]

STATEMENT OF WILLIAM E. SIMON, DEPUTY SECRETARY OF THE TREASURY

Mr. Chairman and Members of the Committee:

I am delighted to appear before you today to discuss the possible shortages of gasoline and other petroleum products. As such, I would like to focus on the following:

(1) The causes behind these shortages;

(2) The effect of these shortages;

(3) The impact that gasoline shortages will have on other products for the remainder of this year and on home heating oil supplies next winter;

(4) The effect of the new Mandatory Oil Import program; and

(5) What steps are being taken to prevent such shortages and their reoccurrence.

THE GROWTH OF DEMAND FOR ENERGY

The first thing to understand is that the demand for energy has been increasing continually while our supply has not. With six percent of the world's population, we are consuming 33 percent of the world's energy. Furthermore, the demand for energy in this country is growing at an annual rate of about four percent and by 1990, our energy needs will be doubled that of 1970.

Further, demand for gasoline in the United States has been growing faster in the past several years than at any other time in recent history. Since 1968, gasoline demand has risen at an annual rate of about five percent. During the past two years the rate of increase has been about six percent per year. Part of this rise in demand can be explained by growth in the population, growth in the economy, and the increasing number of cars on the road.

But demand has also risen significantly because of the many power-using devices added to cars. These include automatic transmissions, air conditioning, various safety features, and the changes made in automobiles since 1970 in compliance with EPA regulations issued under the mandate of the Clean Air Act. Producers' compliance with these regulations has led to substantially reduced engine efficiency. As more vehicles come on the road equipped with safety, emission control and physical comfort devices, average mileage per gallon will decrease further. An automobile that once got 14 miles per gallon, now gets eight or nine miles, and it may get only six or seven miles per gallon if present trends continue.

Because new automobiles are not getting the gasoline mileage obtained by their counterparts five and ten years ago, and because we are driving more, gasoline consumption has risen. We are using 300,000 barrels per day more of gasoline this year than last year.

FAILURE TO BUILD REFINERIES

While gasoline demand has been growing at about six percent per year, the volume of crude oil processed by refiners has risen only three percent per year. We are now extremely short of refinery capacity and, at the time of the President's energy message, which announced the new oil import program,

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no new refineries were under construction. Furthermore, expansion of existing refineries had ceased. Growth in the capacity of the industry had come to an end because the industry found that it was more profitable to invest abroad than in the United States.

One reason for this is that environmental restrictions have made it increasingly difficult to find acceptable sites for new refineries in this country. Because of resistance to refinery siting, it may take three years to obtain site approvals today, in addition to the three years required for construction. Yet, modern refineries can be designed so that they do not significantly pollute the environment. In this regard, I would mention a recent trip which you, Chairman McIntyre, made to inspect a new refinery in the State of Washington. I understand that you were impressed by the cleanliness of this refinery and have urged your fellow Senators from New England to support such a refinery in their area. I wholeheartedly agree witn you.

Another reason why the industry has located new refineries abroad is that United States oil import restrictions, in the past, created uncertainty as to whether new domestic refineries could obtain sufficient imported supplies of crude oil. As long as the Government set import quotas on a year-to-year and, in some cases, on a month-to-month basis, no company was assured of the stability of supply necessary to encourage domestic refinery construction. This impediment ended on April 18 when we terminated volumetric quotas on oil imports.

Finally, the tax and other economic benefits available to refiners in the Caribbean and in Canada have been more lucrative than similar provisions available in the United States. For all these reasons, U. S. refinery construction has been standing still while United States demand for refinery products has been growing.

To meet the growing demand for gasoline, refiners have been changing their mix of products to increase their yield of gasoline. The average yield of gasoline per barrel of crude oil rose from 43.8 in 1968 to 46.9 percent in 1972. This means, of course, that the yield of other products, such as fuel oil, has been reduced. It is also a short-term expedient at best. Whatever the product mix, it will be necessary to increase substantially our overall imports of refinery products to avert both a gasoline shortage this summer and a fuel oil shortage next winter.

Our growing lack of refinery products was driven home to the public late in 1972 with shortages of distillates and other heating fuels in various parts of the country. Refineries had to increase their percentage of distillate production and, correspondingly, reduce gasoline production. As a result, we are now coming into the summer season with low gasoline stocks. As of April 20, we had only 204 million barrels of gasoline in storage. This is down 12 percent from last year, while demand is up six percent. Furthermore, domestic production, even today, is not keeping pace with demand. We are using, on average, 47 million barrels of gasoline weekly, and producing only 43 million barrels. For this reason, we are faced with the prospect of serious limitations on gasoline supply.

An important aspect of the supply problem is the distribution system in this country. Some areas of the country are close to pipelines and refineries. Some areas are served by the retail outlets of the major oil companies. These areas will not feel a shortage as much as other areas which are relatively distant from pipelines and not well-served by the major oil companies.

Recognizing the serious nature of the gasoline and fuel oil shortage, and that there are regional differences in the intensity of the problem, we have established regional subcommittees of the Oil Policy Committee, of which I am Chairman. These groups consist of representatives of the independent segment of the industry serving particular areas of the country. In addition, we have contacted the Governor's office of each state and explained to them the need to reach some compatibility between our energy needs and state environmental requirements. As a result, representativs of the Governor's offices are attending these subcommittee meetings, and we are able to identify regional problems and deal expeditiously with them. Working in this way, we are able to maintain flexibility in the administration of the new oil import program and to be responsive to the special problems of particular areas of the country.

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THE PROBLEMS OF THE INDEPENDENT OIL COMPANIES

We are greatly concerned about the independent companies. The independent segment of the oil industry—the independent refiners and the independent marketers—are faced with related but distinct problems. The refiners face crude oil shortages; the marketers, gasoline shortages.

To understand how these problems developed, it is important to realize that until the early 1970's, we had surplus crude oil production capacity in the United States. This enabled independent refiners to buy crude oil and build refineries to supply, among others, independent jobbers, marketers, and other wholesale customers. There was also a surplus of gasoline and other products being produced by the major oil companies. Independent marketers took advantage of this surplus and opened thousands of gasoline stations to sell gasoline purrhased in the spot market. By efficient servicing of consumers, these marketers were able to sell gasoline for a few cents a gallon less than the major oil companies. I believe that these independents had a healthy influence on the petroleum industry by giving consumers a greater choice between price and service. They made it possible for consumers to buy gasoline at lower prices.

The gasoline shortage has hit these independents hardest. In the first place, independent refineries can no longer get adequate supplies of crude oil. They used to obtain domestic crude oil by exchanging their import licenses with the major oil companies. The major companies used the import licenses to import cheaper foreign crude for their own use, while providing the independent refiners with domestic crude oil. In addition, the so-called "Sliding Scale" method of allocating import licenses under the old system gave smaller refineries more than a proportionate share of the licenses.

All this has changed during the last two years. Quoted prices of foreign crude oil are now equal to or higher than prices of American crude sold in the same markets. There is a worldwide shortage of low-sulfur or "sweet" crude. As a result, major oil companies have had no economic incentive to trade their domestic sweet crude production for imported crude obtained by means of independents' import tickets. Further, because of local air quality standards, companies are compelled to use low-sulfur crude even though their plants are designed for refining high-sulfur crude. The result is that the independent refineries cannot get the crude oil they need and are operating at less than full capacity.

Independent gasoline marketers are also in a difficult position. The wholesale market for gasoline is drying up. Many of the independents find it impossible to purchase gasoline wholesale. Hundreds of independent gasoline stations across the country are closing down. Those that can obtain gasoline abroad, find it available only at much higher prices. This hurts them competitively, since their main selling point with the public is that they can underprice the major oil companies.

The problems of the independent segment of the industry were given considerable attention in designing the new oil import program. Indeed, had it not been for the independents, the changes in the program might have been announced much sooner than they were. Our basic objective was to balance need to preserve the independent segment of the petroleum industry with the desire to create a vigorous domestic industry through incentives for construction of new refineries in the United States and for exploration for new reserves of crude oil. We also wanted to eliminate the many exceptions built into the oil import program and to assure a reasonable stability of prices.

Perhaps the major benefit of the new program is the flexibility that it provides to importers. Marketers will be able to shop for supplies of oil anywhere in the world. They will no longer be dependent entirely on their traditional sources of supply. Moreover, through the availability of fee-exempt licenses issued by the Oil Import Appeals Board, independent marketers should have access to products at lower cost than their major competitors for the remainder of this decade. This should provide the time required by the independent marketers to make the changes necessary to protect their market position.

Another benefit of the new program is the incentive it creates for additional output. The independent marketers have depended for their economic well-being on the excess refinery capacity of the major oil companies. Excess refinery capacity no longer exists, largely because we, as a Nation, have dis-

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couraged refinery expansion and construction. The greatest hope for the independent marketers, in the long run, will be the incentives provided both independent and major refiners to produce additional supplies of crude oil and products. This, in the end, is the only real solution to the problems the independent marketers now face.

THE EFFECT OF THE NEW IMPORT PROGRAM AND OTHER POLICIES ON THE INDEPENDENT OIL COMPANIES

Let me discuss at greater length some of the steps we have taken to protect the independents. In the past, the Oil Import Appeals Board (OIAB) would not distribute import licenses in cases of hardships until September. These licenses were, by and large, distributed to the independent refiners and marketers. Early this year, the OIAB began to allocate tickets immediately upon application. It had soon disbursed its entire 1973 allocation. Then, on March 23, 1973, the President issued a Proclamation granting unlimited allocations to the Oil Import Appeals Board in an effort to make more crude oil and product available to both the independents and the Nation. Finally, on April 18, in another Proclamation, the President removed volumetric controls altogether.

The new program does several things to help strengthen the short-term position of the independent refiners and marketers, enabling them to establish themselves on a more enduring basis.

1. Outstanding import licenses will be honored free of license fee. Since the independents hold a large share of these licenses because of the sliding scale and past OIAB allocations, this provides some value to their tickets where none existed previously. The independents will be able to import oil at lower cost than the majors. As a result, the majors should now have greater incentive to trade with the independents.

2. To provide greater value to the independents' tickets, we have suspended existing tariffs. Had we not done this, the independents' ticket value would have been lower. The only other way to create value under the new program was to have the consumer pay substantially higher prices.

3. The Oil Import Appeals Board has been given specific responsibility for helping the independent refiners and marketers by issuing fee-exempt tickets. Major oil companies may also appeal to the Oil Import Appeals Board, but they must demonstrate their inability to obtain import licenses by exchanging with independents or their willingness to supply established independent marketers and refiners with the same proportion of crude oil or products supplied in 1972.

4. The Government has begun to allocate its "royalty oil" to independent refineries in need. Under the terms of relatively recent lease sales, the Government can collect some of its royalties in cash or in a share of the oil produced on lease lands. In choosing the latter course, it is, in effect, diverting crude oil from the major to the independent refineries. To date, about 60,000 barrels per day have been allocated in this manner to the independents. There is a possibility for an additional sharing of royalty oil of up to 140,000 barrels per day under this program.

5. All of these actions are probably not sufficient to assure distribution of adequate supplies of refinery products to independent marketers and, especially, adequate supplies of crude oil to independent refiners. It is for this reason that the Government has decided to utilize the authority given it under the recently enacted Economic Stabilization Act to allocate both crude oil and products to independents, municipalities, and other purchasers who have been cut off from their traditional sources of supply.

The Oil Policy Committee has been given general responsibility for drafting an allocation program; the Office of Oil and Gas in the Department of the Interior, responsibility for administering the program. The program adopted by the Administration relies on voluntary compliance with guidelines, set by the Government, calling for the supply of no less than the proportion of 1971 and 1972 sales to independents and other customers at prices not to exceed posted and rack prices charged by refiners, marketers, distributors and jobbers. Our purpose is to apportion, as evenly as possible, any curtailment in consumption that will result from gasoline and distillate shortages. Priority will be given to meeting the needs of farming, other essential industries and

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state and local governments. A description of the allocation plan is attached as Exhibit A.

The program will apply to all segments of the industry. The oil companies' adherence to these guidelines will be monitored and, if voluntary compliance fails, more stringent measures will be taken by the Administration. We hope and expect, however, that this will be unnecessary. Our preliminary soundings suggest that the companies are aware of the problems created by curtailments and are willing to continue to provide a fair share of petroleum products to their established customers.

6. Perhaps the most critical problem, however, is the supply of sweet crude oil to independent refiners. There is, at present, a general shortage of low-sulfur crude oil brought on, in part, by the requirements of several eastern states and municipalities that refineries use sweet crude oil to meet air quality standards, even though these refineries are designed to take sour or high-sulfur crude oil. This has diverted sweet crude to the East Coast refineries of major oil companies and away from inland independent refineries, many of whom are unable to handle high-sulfur crude oil.

At the same time, the major oil companies have had little incentive to exchange crude oil because the price of domestic oil is now equal to or lower than the landed price of foreign oil. Under Cost of Living Council rules, the majors cannot change the replacement value for domestically produced crude oil, but must absorb the losses resulting from an exchange. It is no surprise, therefore, that the majors have been reluctant to swap U .S. for foreign crude oil.

The Administration is trying to rectify these probelms. We are working with the Cost of Living Council to find a compatibility between maintaining stable prices and providing adequate compensation to the major oil companies that do exchange domestically produced oil for imported oil.

SOLUTIONS TO THE GASOLINE AND DISTILLATE SHORTAGE

These measures should help to bring about a more equitable distribution of crude oil and products in the short run. What about the long run? What is being done to solve the basic gasoline and distillate shortages that have created the distribution problems with which we are now concerned?

1. We have established a license fee program for crude oil and product imports. This program removes all volumetric quotas on imports and allows free importation of crude and product subject to a fee of 21 cents and 63 cents a barrel, or ½ and 1½ cents per gallon, respectively, after 2½ years. This is a long-run system which is designed to spur the construction of refineries in the United States. It does this by removing obstacles to acquiring an assured supply of crude oil and by instituting a price differential between crude and products sufficient to guarantee an adequate profit from domestic refining. I am happy to report that, since the President's Energy Message on April 18, a number of companies, including Shell, Ashland, The Pittston Corporation, and Standard Oil of California have announced that they now plan to build or expand refineries in the United States as long as sites are available. Others have indicated to us that they are seriously considering building refineries here but have not yet made their plans public. In addition, several independent marketers have stated their intention to develop their own U. S. refinery capability, a necessary step if the independent marketers are to become a fully viable entity in the industry. In each case, however, the decision to build a new refinery is contingent upon a satisfactory solution to the 'siting problem," the seemingly chronic inability of the industry to obtain approval to build new refineries in many parts of the country.

2. We are also taking actions to solve the domestic crude oil shortage by a proposal we are making to the Congress for an exploratory drilling investment credit. This gives a seven percent tax credit for new drilling, plus a supplementary credit of five percent for successful wells. We are confident that this program, if enacted by the Congress, will stimulate crude oil production and have a significant impact on gasoline and fuel oil supplies.

CONSERVATION MEASURES

Energy conservation can play an important role in stretching gasoline supplies and thus reducing the shortage. To this end, we wil lneed the cooperation

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of the Government, industry, and the public. For example, the public is being encouraged to minimize its use of automobiles this summer. According to the Automobile Manufacturers Association, about fifty-six percent of the cars on the road contain only the driver. This underutilization of cars can be reduced in many cases, especially in metropolitan areas. Car pools and public transportation should be substituted, where possible, for single occupant cars. Use of smaller cars, with better gasoline milage performance, is another measure the public might take to conserve gasoline. Additional measures include reducing the use of the automobile air conditioner, keeping tires properly inflated, cutting off motors when stalled in traffic, and avoiding excessive speeds on the highway. I am attaching as Exhibit B a list of conservation measures that can be taken to help reduce the demand for petroleum products.

GASOLINE PRICES

Some have expressed concern that the price of gasoline will rise to astronomical levels. This concern is unfounded. There has been a substantial rise in foreign crude oil prices in the last three years, and we will probably experience additional price increases in the future. But crude oil accounts for only a small fraction of the costs of producing gasoline. For instance, if the crude oil price were doubled, this would increase the price of gasoline by only eight cents a gallon.

One of the largest components of the price of gasoline is represented by federal and state taxes. The breakdown in the retail price of a gallon of gasoline costing thirty-nine cents is as follows: crude oil—8.1 cents; transportation to refinery and refining—5.3 cents; wholesaling and retailing—13.9 cents; state taxes—7.7 cents; and federal tax—4 cents.

It is interesting to note that in England, the retail price of regular gas is 64½ cents a gallon; in Germany 79 1/3 cents; in France 91½ cents; and in Italy, a dollar. With prices like these, it is no wonder that European drivers prefer smaller cars. Why are European gasoline prices so high? The answer is primarily the higher taxes paid by motorists in these countries. In Europe, taxes account for up to seventy-five percent of the retail price. By comparison, taxes represent only thirty percent of the price in the United States.

Gasoline and other prices will probably increase over time. This would provide benefits to the Nation:

1. It will help to save some independent gasoline dealers and refiners who are otherwise going to go out of business.
2. It will encourage Americans to conserve on gasoline.
3. It would also help to provide the economic incentives needed to speed up the construction and expansion of badly needed domestic refinery capacity.

FUEL OIL

A major effort is being made now, and for the rest of the summer, to produce more gasoline. This will have the effect of reducing the yield of fuel oil below that which was being produced a few months ago. The question is whether, as a result, we will have adequate stocks of fuel oil for next winter.

In January, we removed all restrictions on the importation of No. 2 fuel oil. Partly for this reason, stocks of distillate fuel oil are now higher than at this time last year. Imports of fuel oil continue at high levels. We are now importing over 200 thousand barrels per day. This, combined with domestic production, gives us a total projected supply that is adequate to meet our needs this summer and, barring extremely cold weather, to make it through next winter.

In addition to this, we are confident that the recent changes in the Oil Import Program will help us to attain needed levels of imports of fuel oil. Major oil companies can now bring in any amount of fuel oil they wish by paying a license fee of 15 cents a barrel. The independents can, effectively, bring in fuel oil without paying any fee at all.

Further, I believe there is adequate refinery capacity overseas to produce the fuel oil required by the United States, particularly if U.S. refineries maximize their yields of gasoline.

CONCLUSIONS

In my conclusion, let me say that I am basically opposed, as I am sure are most of the Members of this Committee, to the needless injection of Govern-

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ment regulation and control into any industry, particularly where there is every evidence of intense and healthy competition. I do not want to take any step which would discourage private initiative.

I believe the new oil import program provides the proper incentives for such initiative.

Of course, I realize that the new program has not solved all of the problems. We did not expect that it would, because there is just no way that any program can create a barrel of oil. In the long run, however, I feel this program will help create a vigorous domestic petroleum industry.

At the same time, in the short run, I think we are in a situation in which we need to make decisions on priorities. We cannot afford to let crops go unplanted or unharvested for lack of diesel fuel for our tractors. We cannot let our vital industries close down. We cannot endanger public health or safety. And, finally. we should not let the independent segment of the oil industry, which provides competition in the marketplace, be forced to shut down.

Thank you.

EXHIBIT A.—ALLOCATION OF CRUDE OIL AND REFINERY PRODUCTS

The program for allocation of crude oil and refinery products will be voluntary and (1) backed up by guidelines established by the government, (2) a mechanism for providing continuing scrutiny of compliance with these guidelines, and (3) the threat of imposition of more stringent regulations requiring reallocating crude oil and products should this program fail. General policy direction will be vested in the Oil Policy Committee; day-to-day administration of the program, in the Office of Oil and Gas (OOG). An oil allocation section shall be established in OOG to administer the program.

Under the program, each refiner, marketer. jobber and distributor will agree to make available in each state to each of its customers (including those purchasers in the spot market) the same percentage of its total supply of crude oil and products that it provided during each quarter of a base period (defined as the fourth quarter of 1971 and the first three quarters of 1972).

Under the program, OOG may assign to each refiner, marketer, jobber and distributor allocations for priority customers still unable to obtain needed supplies of crude oil and products, not to exceed 10% of any supplier's total sales of crude oil and products during the base period. This assignment by OOG will be based upon demonstrated need. The basic purpose of the assignment is to assure adequate supplies of crude oil and products to priority users who, for some reason, are not well served under the proportional allocation program. It will be particularly important for fulfilling the needs of new customers that have entered the marketplace since 1971-72.

In distributing the oil for OOG allocation, priority will be given to supplying the following activities or to independent marketers, jobbers, and refiners who supply the following activities:

1. Farming, dairy and fishing activities and services directly related to the cultivation, production and preservation of food.
2. Food processing and distribution services.
3. Health, medical, dental, nursing and supporting services except commercial health and recreational activities.
4. Police, fire fighting and emergency aid services.
5. Public passenger transportation, including buses, rail, intercity and mass transit systems. but excluding tour and excursion services.
6. Rail, highway, sea and air freight transportation services, and transportation and warehousing services not elsewhere specified.
7. Other state and local government activities.
8. The fuel needs of residents in states or parts of states not well served by major oil companies and unable to obtain sufficient crude oil or products.

Wholesale and retail marketers of gasoline shall not be deemed priority customers unless they supply a substantial proportion of their product to these priority users.

When convenient, various companies may exchange supply obligations incurred under this program in order to simplify distribution problems.

The office of Oil and Gas will receive complaints from anyone who feels he is not receiving a proper allocation of supplies. If it deems it necessary, OOG may require a public hearing and submission of data, by supplies, on

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their 1971 and 1972 exchanges and/or sales of crude oil, unfinished oils and products. These data will include the names and addresses of customers, the amounts of crude oil and products sold to them, the legal relationship between major oil companies and customers, and whatever other information OOG believes necessary to conduct the hearing. The OOG will then verify the accuracy of complaints against a supplier and, if justified, impose mandatory allocation on the supplier.

The price at which petroleum products shall be sold to independent marketers, wholesale distributors, and other unaffiliated customers shall not exceed normal refinery rack prices charged by major companies to new contract customers. The price which wholesale distributors may charge independent marketers shall not exceed normal wholesale prices, or normal refinery rack prices plus a normal wholesale markup.

Where independent refiners have previously received domestic crude oil in exchange for import tickets, the independent refiners will be required to surchasing crude oil under the program. Where the independent refiners previously render license fee exempt quotas in return for receiving the privilege of purpurchased crude oil without surrendering import tickets. no license fee exempt quotas will have to be surrendered. The price at which crude oil shall be sold to independent refiners shall not exceed posted crude oil prices plus an applicable pipeline transportation charge except, however, where crude oil is sold as required based upon previous exchanges of import tickets for domestic oil, the major companies may charge a price equivalent to the average landed cost of any oil imported to replace the oil sold under the provisions of this program.

Immediately following the initiation of this program. the Oil Policy Committee shall begin hearings to determine any changes that may be required to make the program equitable to all classes of suppliers and purchasers, and whether the program should be made mandatory. The Chairman of the Oil Policy Committee will designate an ad hoc board to conduct such hearings and report its findings to the Oil Policy Committee. The board shall be composed of representatives of the Interior, Treasury, and Commerce Departments, GSA/OEP, and any other representatives as the Chairman of the Oil Policy Committee may feel appropriate. The Chairman of the Oil Policy Committee shall designate the Chairman of this board.

The Oil Policy Committee will also investigate and recommend additional measures that should be undertaken to encourage allocations by major suppliers. For example, it will investigate changes in Cost of Living Council rules and environmental standards and regulations that seem necessary to assure efficient utilization and equitable distribution of crude oil and products.

EXHIBIT B.—ACTIONS TO REDUCE THE DEMAND FOR PETROLEUM PRODUCTS

1. Consolidate airline flights to attain higher efficiency per passenger mile and thereby lower fuel consumption.
2. Encourage mass transportation. In metropolitan cities, people could be encouraged to use buses and trains.
3. Reduce speed on all highways which could save 11% fuel when driving 50 instead of 60 mph and 25% fuel when driving 50 instead of 70 mph. Legislation requiring 50 mph maximum speed on state highways and interstates might be required.
4. Keep engine in top shape. A poorly tuned engine reduces mileage by 10%.
5. Form car pools.
6. Plan trips to stores—combining visits to cleaners, drug, department and grocery stores.
7. Use car air conditioners sparingly. You can save as much as 10% on fuel consumption when it's not in use.
8. Keep tires properly inflated. Under-inflated tires affect gasoline mileage by approximately one mile per gallon.
9. Warm up engine before driving.
10. Use multi-grade motor oil in engine. It can give you 10% better mileage than regular grade oils.
11. Start slowly and stop slowly—you save gasoline.
12. Stagger working hours in metropolitan cities to ease traffic jams and wasteful engine idling.

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13. Walk more.
14. Eliminate or curtail non-essential driving.
15. Take vacations by train or bus.
16. Lower the thermostat seting by two degrees in your home in winter or raise air conditioner setting in summer which can save significant volumes of fuels.
17. Add home insulation.
18. Minimize recreational driving, flying and boating.
19. Ship more freight by rail and water which operate with good fuel economy.

U. S. SENATE,
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS,
Washington, D.C., May 15, 1973.

HON. WILLIAM E. SIMON.
Deputy Secretary of the Treasury,
Department of the Treasury,
Washington, D.C.

DEAR MR. SECRETARY: I would like to extentd you the sincere appreciation of the Committee for your appearance last Thursday during the hearings on shortages of petroleum products and the effect on the national economy.

I am convinced that the decision by the Administration to implement the allocation authority contained in the Economic Stabilization Act was a necessary move under the circumstances. I do feel, however, that it is imperative that the Oil Policy Committee begin immediately to hold the hearings as outlined during your testimony on the issue of mandatory allocation of petroleum products.

While I hope that the oil industry will voluntarily cooperate in your outlined allocation procedure, I think it is necessary that further steps be taken to develop a mandatory allocation program that could be implemented if it becomes apparent that the voluntary system is not achieving its purpose. Such action, in my opinion, would make it clear to the petroleum industry that the Federal government intends to take whatever action is necessary to assure that needed petroleum products are supplied throughout the country and that a meaningful level of competition must be maintained throughout the industry.

It would be appreciated if I could receive your position and whether as Chairman of the President's Oil Policy Committee you intend to move to develop such a mandatory allocation program. Questions have also recently surfaced concerning whether the voluntary allocation program complies with Federal antitrust statutes and whether the present statutory allocation authority contained in the Economic Stabilization Act is sufficient to deal with the problem of handling petroleum product shortages. Your response to these issues would also be appreciated.

Sincerely,

THOMAS J. MCINTYRE, U.S.S.,
Chairman, Subcommittee on Financial Institutions.

THE DEPUTY SECRETARY OF THE TREASURY,
Washington, D.C., May 16, 1973.

HON. THOMAS J. MCINTYRE,
U S. Senate,
Washington, D.C.

DEAR SENATOR MCINTYRE: Thank you for your letter of May 15, 1973. It was a pleasure for me to appear before your Committee to discuss the possible shortages of gasoline and other petroleum products and to present our voluntary plan for the allocation of petroleum and petroleum products.

We believe that this voluntary program will result in an equitable distribution of these needed supplies. We are confident that producers, refiners, marketers, jobbers and distributors will all respond in accordance with this program.

In order to determine whether the voluntary plan is effective and whether a mandatory program is required, the Oil Policy Committee is initiating hear-

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ings immediately. If we feel that a mandatory program is necessary, we have adequate authority to institute such a plan under the Economic Stabilization Act and will do so.

You have inquired as to whether the voluntary program complies with Federal antitrust statutes. We have received the opinion of the Department of Justice that, with some technical changes, which have been made, they "find nothing in the plan as proposed that would violate the antitrust laws, provided that (a) communications between government officials and individual companies are on a bilateral basis and (b) no communications between private companies that are horizontal competitors are involved."

As outlined above, we feel we have adequate authority to deal with the problem of petroleum product shortages. The voluntary allocation plan, which provides flexibility to all concerned, is an important step in dealing with this problem and further legislation now should not be enacted. I am enclosing our comments on the Emergency Petroleum Allocation Act of 1973.

Sincerely yours,

WILLIAM E. SIMON.

COMMENTS ON THE EMERGENCY PETROLEUM ALLOCATION ACT OF 1973

We are opposed to this bill for the following reasons:

(1) It is not necessary. The authority to require allocation of petroleum and petroleum products already exists.

(2) It cannot be implemented quickly. A month or two delay could be critical to small oil jobbers and marketers.

(3) It is ambiguous, which could complicate implementation and could lead to delaying law suits.

(4) The companies provisions apply only to major companies.

(5) It provides the Administration with less flexibility than may be necessary to equitably allocate future supplies.

This bill does not clearly set forth the necessary criteria for administration and is ambiguous concerning many details. We have the following specific comments:

(1) It provides no criteria for finding which fuels are in short supply and which should be regulated.

(2) It provides no criteria for finding when allocations are no longer necessary and for removing controls prior to termination of authority in September 1974.

(3) It provides no criteria for establishing what constitutes an "exorbitant price increase" which would be unlawful under the bill.

(4) It is ambiguous with regard to an effective date. Regulations, plans, and priority schedules must be published within 60 days from enactment of the Act. But Section 106(a) states that the schedules, plans, and regulations must be submitted to both Houses of Congress. It is unclear whether such a submission is for information purposes only, or whether Congressional approval of the submitted schedules, plans, and regulations would be required.

(5) It is ambiguous with regard to who is covered by the bill. Section 105 specifies a procedure for allocating crude oil and refined products, but is limited to major producers and refiners. Companies such as Coastal States Gas Producing Co., Tenneco, Union of California, Marathon, Union Pacific, Crown Central, etc. would not be covered by the definitions in Section 105(a) and 105(b). Section 104 grants authority to allocate and distribute "any liquid fuel, whether crude or processed." Does this apply only to the type fuel to be allocated, or does it override Section 105 and also grant authority to allocate and distribute products from all refiners and wholesale jobbers to independent marketers?

To solve our present problems we must have authority to allocate supplies across the entire marketing network, including intermediate sized refiners and wholesale distributors and jobbers. The larger, major companies, supply relatively few products to wholesale distributors and jobbers. Controlling allocations of only the major companies will not solve the present distribution problems.

Sections 105(c) and 105(d) (which deal with compliance, apply only with Section 105. Therefore, the Act provides no provisions to compel compliance of anyone other than the largest producers and refiners.

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In short, S. 1570 does not provide the Administration with the flexibility that it needs to deal with the current problem. Its ambiguity and limiting restrictions could lead to law suits and tie the Administration's hands. Since we have ample authority to deal with the present situation under the Economic Stabilization Act, we recommend against passage of S. 1570.

DEPARTMENT OF JUSTICE,
Washington, D.C., May 15, 1973.

HON. WILLIAM E. SIMON,
Deputy Secretary,
Department of Treasury,
Washington, D.C.

DEAR MR. SIMON: This letter responds to your informal request for an opinion as to whether the voluntary allocation plan, attached as Exhibit A to your testimony before the Senate Committee on Banking, Housing and Urban Affairs on May 10, 1973, would involve any violation of the antitrust laws.

A clear purpose of this allocation plan is to assist independent refiners and marketers. However, any voluntary private action which affects the survivability of independent competitors in this industry could raise questions under the antitrust laws. We therefore recommend the following changes to assure that the plan, as proposed, would work to the benefit and not to the detriment of such firms.

The changes that we recommend are.

(1) In Priority No. 8 on page 2 of Exhibit A delete the words, "not well served by major oil companies." This would avoid the risk that independents in areas served by majors would be denied supplies because of the presence of such majors.

(2) Delete the first paragraph after Priority No. 8 and substitute the following:

"Whenever possible without detriment to the above priorities, preference shall be given to independent refiners and marketers (1) in the carrying out of such priorities, and (2) in other cases where all other conditions are equal and a choice must be made between allocation of supplies to an independent or to a major company."

The existing paragraph would appear unnecessary to afford priority to independents where the listed priorities are involved and appears to deny them any preference in other cases.

(3) Delete the second paragraph after Priority No. 8 which authorizes exchange of supply obligations between competitors.

(4) Delete the first two sentences of the paragraph beginning at the bottom of page 2 and extending to the top of page 3, and the clause of the last sentence at the end of that paragraph beginning "however." Those provisions would deprive independents who obtain supplies under the allocation program of their import fee exemption under the Mandatory Oil Import Program. It is not clear from the face of the proposal whether loss of the fee exemption would apply to supplies which represent the required minimal percentage of sales to independents based on their purchases in the base period. If it did apply to such sales, independents could be penalized for continuing to deal with the same supplier and there could be unresolvable questions of fact as to whether continued purchases were under the requirements of this program or not. As applied to special priority allocations under the plan, presumably those would not be made absent a showing of need which would necessarily take account of domestic oil obtained in exchange for imported oil. The oil supplied under the allocation plan would not be at a subsidy price; and the loss of the import fee exemption could defeat the purpose of assisting independent companies.

(5) The Department of Justice should be one of the agencies named to the Board that would conduct hearings on possible changes in the plan to assure that it is equitable—particularly as it may affect the availability of supplies to new entrants.

As amended in the above respects, we find nothing in the plan as proposed that would violate the antitrust laws, provided that (a) communications between government officials and individual companies are on a bilateral basis

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and (b) no communications between private companies that are horizontal competitors are involved. We do, however, reserve our right to take action against any illegal activities that might result from operations under the plan.

This advice is based upon our understanding that the proposed plan is designed to make available to the independents certain minimal quantities of crude oil and refinery products and that it does not imply any agreement or understanding, either between the government and any company, or between two or more companies, not to make available quantities in excess of such minimal amounts.

No opinion is expressed with respect to the activities contemplated under Exhibit B.

Sincerely yours,

BRUCE B. WILSON,
Acting Assistant Attorney General,
Antitrust Division.

Senator MCINTYRE. Thank you very much for a very fine statement and I hope a program that is going to be very welcome and helpful not only to the majors but to the litttle guys.

We now welcome as our next witness, Mr. Darrell Trent. We have your statement here. In so far as you are able to condense it where you can, we would appreciate it. The statement will be included in the record now in its entirety. I want you to have perfect freedom in testifying in any way you see fit.

STATEMENT OF DARREL M. TRENT, ACTING DIRECTOR, OFFICE OF EMERGENCY PREPAREDNESS

Mr. TRENT. Thank you very much, Mr. Chairman, for this opportunity to discuss the impact of possible shortages of gasoline and other petroleum products on the Nation's economy.

As Chairman of the Joint Board on Fuel Supply and Fuel Transport, the Director of the Office of Emergency Preparedness has the responsibility to monitor fuel supplies and to assist with problems of resource shortages.

In working very closely with Secretary Simon, the Office of Emergency Preparedness has participated in the structuring and information available in putting together the program announced by the Secretary today. We do find that the current situation as it exists creates very definite problems that can be foreseen at this stage during the sumer. We look very much to private industry as operating and having the responsibility in the free market to not only increase production, but also to make use of all the available sources in the world at this time to provide additional sources of crude oil so that the refining capacity in the United States can be operated at a level that will meet the demand this summer. We think that the steps that have been taken by the President at this time in sending his energy message to Congress offer a basis for a continuation and development of a policy of the 1970's and 1980's which is necessary in the restructing and development of the organization and posture of the oil industry to meet the demands that are essential in this country.

Basically, the approach that we have taken is to look to private industry and to provide the type of structure within the oil import program that is necessary to give them continuity and to provide a basis for their development of planning and building additional refining capacity in the United States.

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We think that refining capacity, as well as increased production and development of energy facilities, energy resources of petroleum is absolutely necessary to move into the period of the 1970's. The Office of Emergency Preparedness is carefully associated staffwise with the Department of Interior and the Department of Treasury at this time and proceeding on a reasonable analysis of the statistics available to us for projecting the demand of gasoline this summer.

We think important steps can be taken to increase the supply. We hope that the relaxation of the import restrictions will provide considerable support in this area.

We do, also, think that a great responsibility rests with the consumer. The education process that we have undertaken with the Department of the Interior in the establishment of a new Office of Conservation, together with the report of OEP on conservation steps that might be practical to point in the direction of the 1970's in educating the individual consumer as to what he can do to reduce demand.

We have grown up in a time during the fifties and sixties where energy was considered to be abundant and price was not significant in the overall planning of corporate development and individual consumer patterns. We think it is extremely important that the consumer be re-educated as well as industry to show that steps be taken to reduce demand and provide a basis for wise and careful use of the energy that we do have available.

I think basically I would support and substantiate the statements made by Secretary Simon this morning and would be glad to take your questions on the technical information that we have supplied in the process in our assessment of what might happen this summer.

[The complete statement of Mr. Trent follows:]

STATEMENT OF DARRELL M. TRENT, ACTING DIRECTOR.
OFFICE OF EMERGENCY PREPAREDNESS

Mr. Chairman and members of the committee. thank you for this opportunity to discuss the impact of possible shortages of gasoline and other petroleum products on the Nation's economy.

As Chairman of the Joint Board on Fuel Supply and Fuel Transport, the Director of the Office of Emergency Preparedness has the responsibility to monitor fuel supplies and to assist with problems of resource shortages.

THE CAUSES BEHIND THE GASOLINE SHORTAGE

Several factors have contributed to the development of the currently tight gasoline supply situation. For the last several years gasoline demand has increased at a markedly faster rate than refinery output. From 1968 to 1970, gasoline demand rose at an annual rate of about 5%. During the next two years the rate increased to 6%. This rise in demand reflects economic and demographic growth and record automobile sales. In addition. emission control standards and the growing use of new gasoline-consuming devices such as air conditioning, automatic transmissions, power steering and power brakes have significantly reduced the energy efficiency of the automobile.

In an attempt to keep up with the demand, refineries increased the gasoline yield per barrel of crude oil from 43.8% in 1968 to almost 47% in 1972.

The problem, however, is that we have reached the limits of our current overall refinery capacity. Only one new refinery has been built in the United States since 1968 and there has been little expansion of existing capacity. Generally, industry has found it more profitable to locate new refineries outside the United States for several reasons: (1) It has been increasingly difficult to find environmentally acceptable sites for new refineries in this country,

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especially on the East Coast; (2) capital costs are high; and (3) the old mandatory oil import quota system created considerable uncertainties as to whether companies could obtain assured and sufficient sources of feedstock.

As a result, refinery capacity grew by only 2.2% last year while petroleum product demand increased by 7%.

Given the present shortage of refinery capacity, existing refineries can maintain a high gasoline yield only at the expense of other refined products. However, exceptionally cold weather in the fourth quarter of 1972 brought an unusually sharp increase in the demand for heating oil, and refiners were forced to increase their yield of that product to record levels. This meant, of course, that gasoline yields had to be reduced. Consequently, motor gasoline inventories were substantially below normal at the end of the winter.

As of May 4, U.S. motor gasoline stocks were down 9.2% from the same period last year. Currently, we have inventories of only 201.5 million barrels of gasoline, which approaches the lowest inventory level of 1972 — 200.7 reached July 31st and September 1st.

Even now some refineries are not operating at full capacity because they are unable to obtain adequate crude supplies. Part of this problem originates with the declining domestic supply. However, beginning in the fourth quarter of 1972, a shortage of foreign crude oil became evident, particularly of the low sulfur variety, which is the only kind many of our refineries can use.

THE EXTENT OF THE EFFECT THE SHORTAGE WILL HAVE ON THE NATION

Gasoline consumption for the entire country is expected to run as high as 7 million barrels per day during the peak demand season this summer. This means that the current inventory shortfall amounts to only about 3 days of supply.

The shortages that may occur will most likely not be major or nationwide but will tend to be confined to localized geographic areas. The most likely sections to be hit are those served primarily by small independent refiners and marketers. The impact of shortages may be greater in isolated rural areas than elsewhere.

In addition, some cities and other public authorities may be unable to obtain or renew their normal long-term bulk discount contracts for gasoline and may be forced to purchase supplies on a short term basis and/or at higher prices.

Most consumers will probably not experience serious problems. If industry production remains reasonably close to projected levels although in a few instances, localized shortages may mean having to drive farther to the next gasoline station.

IMPACT OF GASOLINE SHORTAGES ON OTHER PRODUCTS FOR THE REMAINDER OF THE YEAR AND ON HOME HEATING OILS NEXT WINTER.

Maximizing gasoline production for the spring and summer driving season will be largely at the expense of distillate fuels. It is difficult to assess the impact which heavy gasoline production this summer will have on the supply of distillates for next winter. However, we are now at the end of the heating season and distillate stocks appear encouraging compared with the inventory levels for the same period in recent years.

The President's new import program has lifted import ceilings on these products, and this action should facilitate the buildup of inventories. When President Nixon temporarily removed the ceilings on distillate imports last January, imports increased dramatically and made a significant contribution to meeting last winter's demand. With the new program, there is every reason to believe that imports will help meet an even greater share of distillate demand requirements this winter.

The new import program should also stimulate Caribbean distillate production. The Caribbean has been our traditional source of heavy fuel oils. With the uncertainties of the quota system now removed, Caribbean refineries should be able to adjust their production to accommodate our distillate demands.

Since domestic refineries will be concentrating on gasoline, a larger portion of distillate demand will have to be met by imports. This change will require an adjustment in distribution patterns and may cause initial distortions in product flow.

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IMPACT OF SHORTAGES ON COMPETITION WITHIN THE OIL INDUSTRY

The independent companies, that is, the small nonintegrated concerns, will be hardest-hit by the shortages. Independent operators are estimated to account for about 30% of the gasoline market. Normally they contract with the large, major companies for at least part of their supplies. They frequently depend heavily on "spot" purchases of available surplus to fill out their needs. In the past, a surplus of domestic crude oil and refinery capacity enabled the independents to buy crude and products on the open market. They were able to sell their products at a few cents a gallon less than the major oil companies and thereby helped maintain competition in the industry.

Today, however, we no longer have any excess capacity. As a result, the independent refiners find it difficult to obtain gasoline supplies for which they have no firm contract, and many are denied access to any supplies. Today the spot market is almost nonexistent. Moreover, available imports are generally sour crudes and foreign crude oil prices are equal to or higher than American crude prices. Therefore, the major oil companies have had decreased incentive to trade their domestic crude with the independents for import tickets.

As a result of these developments, many independent refineries are not operating at full capacity. We also have many reports that independent gasoline stations have closed and there are indications that an increasing number will be adversely affected.

WHAT STEPS CAN AND SHOULD BE TAKEN TO PREVENT SHORTAGES AND THEIR RECURRENCE? WHAT IS THE EFFECT OF THE NEW IMPORT PROGRAM?

The Administration has taken a number of steps to diminish potential shortages of gasoline and fuel oils. The President has instituted a series of moves to increase imports of crude petroleum and products. Last March he authorized the Oil Import Appeals Board to make allocations of imports of finished products on the grounds of exceptional hardship and to grant additional allocations in such instances without regard to the overall import level. I might note in this connection that the Oil Import Appeals Board last week granted import tickets for 128 million gallons of gasoline to 17 independent firms in 10 States. Subsequently, in his Energy Message, the President ordered a thorough restructuring of our oil import program. These measures should help ease the tight supply siuation, particularly for the independents.

All existing tariffs and quantative limitations on imported crude oil and refined products have been removed. In their place, the President has instituted a graduated fee system which became effective May 1.

Present holders of import tickets may bring in foreign petroleum exempt from fees up to their 1973 quota allocations. Independent refiners, who have been particularly hard pressed to find crude supplies are now better able to exchange their valuable tickets with major companies for domestic crude. Independent marketers are no longer limited to their traditional domestic sources of supply or occasional foreign sources, and are now able to shop for petroleum supplies anywhere in the world.

The removal of quota restrictions opens up the world market for additional imports of gasoline, distillate and other products so that companies are now able to take advantage of all available supplies on the world market.

There is excess refining capacity in both Western Europe and the Caribbean. However, it is not likely that these refineries will be able to fill all the gaps in gasoline supply that could develop, for several reasons: (1) there is a global shortage of sweet crude; (2) foreign refinery yields of gasoline average only about 15% per barrel; and (3) these refineries are not geared to produce volume quantities of gasoline to meet U.S. standards.

Importation of distillate fuels, which are more readily available on the world market than gasoline, should allow American refiners to concentrate on producing gasoline this summer.

The President has also taken steps to make available larger quantities of royalty oil to supply-short independent refineries. The Federal Government obtains royalties in the form of either dollars or crude oil from offshore areas which it leases to private companies. To help the short-run situation, the Government has been taking the royalty payment in the form of petroleum and

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making this oil available to hard-pressed independent refineries. Since January of this year, contracts for approximately 70,000 barrels per day have been signed, and we expect another 80 to 100 thousand barrels per day to be made available from that source.

In addition to the new import program and the increase of royalty oil, the Joint Board on Fuel Supply and Fuel Transport, which the Director of OEP chairs, is closely monitoring the supply situation. The Board was established in 1970 as the mechanism to identify emergency fuel problems and to coordinate remedial action by the responsible Federal agencies. The Board includes the Secretaries of Interior and Commerce, and the Chairman of the Council on Environmental Quality, the Interstate Commerce Commission and the Federal Power Commission. The Board has a working group, which meets under OEP auspices, and field boards which have been established in the ten Federal Regional Council cities. The field boards are chaired by the OEP Regional Directors and include representatives from other Federal agencies.

During periods of serious shortages, OEP activates an Emergency Operations Center. The Center has effective communications and computer links with each of OEP's 10 Regional Offices which facilitates timely reporting from the field on fast-breaking developments. The Center is manned on a full or part-time basis as required by representatives of the Joint Board and appropriate agencies.

The primary function of the Emergency Operations Center is to monitor and analyze shortages and to provide information on a national basis which will assist the Board in promoting a better distribution of available resources. During the shortage of heating oil this past winter which occurred in scattered parts of the country, OEP Regional Directors, acting on behalf of the Board, worked with State governments. In many instances, these contacts resulted in coordinated Federal/State efforts to resolve specific problems.

In addition, OEP and concerned agencies have kept in close touch with industry and have encouraged refiners to increase production of seasonally critical products.

As part of the effort to prepare for any contingency, EPA, in consultation with OEP, has developed interim guidlines under which temporary variances could be granted to permit the use of high sulfur content fuels in cases of extreme emergency. I want to emphasize that actions along these lines would only take place as a last resort and do not in any way diminish our commitment to protect the environment.

The Joint Board is also cooperating with the newly established Office of Energy Conservation in the Department of the Interior to encourage industry, the public, and all levels of government to conserve gasoline and use it more efficiently.

Last fall, OEP completed a study on the potential for energy conservation in the transportation, residential/commercial, industrial and electric utility sectors of the economy. We concluded that, if we adopted all the measures which our report examined, we could save up to the equivalent of 7.3 million barrels of oil per day by 1980. Thus there is a great potential here for saving energy and eliminating wasteful consumption.

In his recent Energy Message. President Nixon warned that we cannot take our resources for granted and called for a "national energy conservation ethic."

As noted earlier, he has set up an Office of Energy Conservation in the Department of the Interior to conduct research and work with consumer groups and environmental organizations to keep the public informed on ways to obtain the best return on their dollars by using energy efficiently.

In addition, the Department of Commerce has been directed to develop a voluntary labelling program for major energy-consuming home appliances. The labels would provide information on the energy efficiency of the equipment and help the consumer make informed choices.

In a most significant action for conservation, the President has asked Congress to allow local officials to use money from the Highway Trust Fund to finance the expansion and development of mass transit systems. This action will not of course help this summer, but it is important enough to emphasize its advantages here. This measure would not only reduce gasoline consumption but it would also relieve traffic congestion, decrease pollution and help revitalize the economies of our cities.

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There has been considerable discussion in recent weeks about the possibility of the Government's allocating fuel supplies during periods of shortage in order to ensure an equitable distribution of fuels at the wholesale and retail levels.

Briefly, these are the authorities which the Federal Government has to undertake such measures.

The Defense Production Act authorizes the Director of OEP to implement rationing, priorities and allocation schemes according to certain narrowly defined legal criteria.

Under Section 101(b) of this Act, the Director of OEP is prohibited from controlling the general distribution of materials in the civilian economy unless two tests are met—one, that the material involved is a scarce and critical material essential to the national defense; and two, that the requirements of the national defense for such materials cannot otherwise be met. These requirements mean that, in case of supply disruptions of a critical material such as petroleum, the Federal Government has the authority to take care of defense requirements but it cannot intervene in the civilian economy, except where meeting defense requirements would result in hardship and distortions in the economy.

The second authority for allocations is based upon the Economic Stabilization Act which was just signed on April 30. Under its provision, the President may provide for "the establishment of priorities of use and for the systematic allocation of supplies of petroleum products including crude oil in order to meet the esssential needs of various sections of the Nation and to prevent anti-competitive effects resulting from shortages of such products."

This new authority is now under careful study, and we are examining ways in which an allocation system could best be implemented. Secretary Simon's testimony covers the most recent developments.

The basic problem is the inadequacy of available domestic fuel supplies. President Nixon's Energy Message has launched a comprehensive program to encourage the rapid development of domestic energy sources and the construction of new refinery capacity. I strongly believe the President's program will assure that future requirements are met, and that we can avoid shortages in the years ahead.

Head of OEP Sends 50 Governors Letter on Energy Conservation

Today, Darrel M. Trent, Acting Director of the Office of Emergency Preparedness (OEP), has taken another step in a governmentwide effort aimed at bringing to public attention the urgency of energy conservation, by making available to the Governors of the 50 States the assistance and cooperation of the President's Joint Board on Fuel Supply and Fuel Transport and the Office of Emergency Preparedness.

Mr. Trent has stated over the past two months that due to lower than normal gasoline inventories, the Nation would be faced with "spot" shortages this summer. In response to this problem, OEP through its Regional Offices throughout the U.S., has mobilized a major support activity which is reinforcing cooperation between the offices of many State Governors and the Joint Board on Fuel Supply and Fuel Transport. These relationships along with the stepped up activities of the ten "Field Boards" will continue to be helpful in keeping both the local State and Federal Government apprised of the developing situation. OEP's Regional Offices have been instructed by Trent to work closely with State and local officials to assist them in resolving local supply problems.

Trent observed that, although shortages are likely to develop in some areas, he does not anticipate a situation requiring the implementation of a nationwide rationing program this year.

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The new authority granted by the Economic Stabilization Act of April 30, 1973 offers additional authorities for allocation which are in the final review process.

Conservation measures suggested for consideration by the Governors in anticipation of the seriousness of the gasoline shortage, were included in the message sent today.

The objective of the actions taken by OEP and other concerned government agencies is to employ conservation measures as a realistic and necessary antidote to our mounting energy deficiencies.

Recognizing that this is a long-term problem, prompt and deliberate attention is also being paid to educating those officials in industry, government, and the public-at-large of the many useful steps the Nation can take to conserve energy.

Mr. Trent also included in his letter to the Goevrnors an OEP Survey of Fuel and Energy Problems for the Spring and Summer of 1973. This report indicated "symptoms" of shortages are already developing in some areas of the U.S.—well before the peak summer driving season. Some municipalities have been unable to obtain or renew long-term contracts and several wholesale distributors are reducing operating levels. The surplus of gasoline, on which the independent marketers base their operations, has already disappeared in many areas of the country. This is evident in the reported closings of service stations owned by independents, which comprise less than one percent of the 220,000 total stations in the Nation. OEP also anticipated a 7 percent increase in demand for gasoline in the months ahead over last summer's consumption level.

Mr. Trent's letter is one of a series of actions by the Federal Government in support of President Nixon's Energy Message for 1973, designed to bring home to officials at all levels of government and to the general public the seriousness of the U.S. shortage of energy, particularly gasoline.

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF EMERGENCY PREPAREDNESS,
Washington, D.C.

DEAR GOVERNOR: I am writing to tell you of our concern about tight gasoline supplies in the coming weeks, and to offer my cooperation and that of the other agencies of the President's Joint Board on Fuel Supply and Fuel Transport, in your preparations for actions to lessen the impact of any such shortages that occur.

As you know, the Joint Board monitors the fuel posture of the Nation and warns of difficulties that may develop in the distribution of these vital commodities. The Board also coordinates Federal efforts to assist the States in meeting these problems.

I am grateful for the very effective relationships established, during the period of the fuel oil shortages last winter, between the offices of many State Governors and the Regional Field Boards, which also act on behalf of the Joint Board. These relationships were instrumental in keeping both the State and Federal Governments informed on the developing situation, and, in many instances, resulted in coordinated efforts to resolve specific problems. I trust that these cooperative relationships will continue.

Gasoline inventories are significantly below the levels of last year at this time. This situation will be more difficult this summer in view of a projected 5.4 percent increase in demand. Our projections suggest that supplies will be adequate for the country as a whole, but that spot shortages are likely to develop in some areas. I do not now anticipate, however, that rationing by the Federal Government would be used this summer to deal with the shortages of supply.

In the event of a serious localized shortage of gasoline, certain steps could be taken by the local authorities to mitigate its impact. Some of these steps

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entail allocations of fuel to ensure the continuation of essential services of a community. Others involve conservation measures which the gasoline user can be urged to adopt. Some State governments have already prepared or are proposing legislation to take actions in case of a gasoline supply emergency. There may be some States, however, that have not begun their planning and, hence, I am enclosing for your consideration, a list of possible gasoline conservation measures, prepared in conjunction with the Department of Transportation.

As President Nixon noted in his message to Congress on energy, a new Office of Energy Conservation is being established in the Department of Interior to seek means of reducing demands for energy. That office will be working closely with your State and local officials.

In closing, we wish to highlight the activities of the ten Field Boards, which are the regional counterparts of the Joint Board. These existing Field Boards, include representatives of a number of Federal agencies, and will be monitoring the on-going fuel situation, coordinating Federal actions, and working closely with your representatives to assist them in dealing with fuel problems occurring within the State, so that essential fuel needs of all consumers can be met.

The Field Board in your area will keep you informed on the national fuel and energy situation as we approach the high demand period ahead. For your information, a copy of the Survey of Fuel and Energy Problems for Spring and Summer, 1973, which was prepared by the Joint Board, is enclosed.

Sincerely,

DARRELL M. TRENT,
Acting Director.

SUGGESTED MEASURES FOR CONSIDERATION BY STATES IN EVENT OF SERIOUS GASOLINE SHORTAGES

There are a number of voluntary conservation measures that could be encouraged by the States. The following are listed as examples:

1. Initiate State-level TV, radio, and press announcements for conservation measures.

2. Urge commuters to use mass transit or form car pools. (This can be encouraged by parking restrictions on cars with no passengers, suspending or reducing tolls for full cars, providing express lanes for buses and car pools, and temporarily expanding city transit systems by placing additional buses or trains in service or by extending bus lines into built-up areas not regularly served.)

3. Counsel motorists to:

a. Drive at lower speeds on high-speed roadways.

b. Increase the care and maintenance of their cars, and to drive conservatively.

c. Avoid "jack rabbit" starts. With automatic transmission, accelerate gradually. With manual transmission, get into high gear faster.

d. Use brakes and not acceleration to keep car from rolling back when stopped on a hill.

e. Drive at steady, moderate pace.

f. Turn off engine when stopped for more than a minute at lift bridges, train crossings, or in stalled traffic.

g. Keep engines properly tuned.

h. Properly inflate all tires. Under-inflated tires waste fuel.

i. Consider the necessity of every trip; plan trips to reduce excessive mileage and driving; lighten cars by removing unnecessary weight from trunk and limit the use of air conditioners and other fuel-consuming accessories.

j. Use the smaller of family cars whenever a choice exists.

4. Urge commercial truckers to carry maximum loads, to use the most direct routes and to turn off engines when waiting in terminals or for periods of over a minute.

5. Urge people to walk when going short distances. Encourage the use of bicycles by constructing bike lanes. (One out of every seven car trips covers less than a mile. Fifty-four percent of all car trips are less than five miles.)

6. Urge farmers with private stocks of gasoline to guard against evaporation.

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SURVEY OF FUEL AND ENERGY PROBLEMS

FOR SPRING AND SUMMER

1973

APRIL 1973

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF EMERGENCY PREPAREDNESS
WASHINGTON, D.C. 20504

SURVEY OF FUEL AND ENERGY PROBLEMS

FOR SPRING AND SUMMER 1973

Prepared by the Joint Board on Fuel Supply and Fuel Transport consisting of representatives of:

Council of Economic Advisers
Council on Environmental Quality
Department of the Interior
Department of Commerce
Federal Power Commission
Interstate Commerce Commission
Office of Emergency Preparedness, Chairman

With participation from:

Atomic Energy Commission
Environmental Protection Agency
General Services Administration
Department of Transportation
Department of Agriculture

APRIL 1973

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SURVEY OF FUEL AND ENERGY PROBLEMS FOR SPRING AND SUMMER 1973

A. Summary Statement

The President's Joint Board on Fuel Supply and Fuel Transport has analyzed fuel and electric power supply and requirements throughout the United States for the coming months. The Joint Board anticipates that supplies of natural gas and gasoline will be very tight in the spring and summer. Fuel supplies for electric utilities, however, are believed adequate. This marginal situation could be seriously aggravated by unforeseen incidences, such as a major breakdown in refinery operations.

Electric power generating capacity is expected to be sufficient to meet expected demands over much of the Nation this summer, although some areas have marginal reserves. While more generating capacity is available this summer than last, there still remain problems of delay in bringing additional capacity on line. Delays in some of these additions are the result of construction, technical, licensing, or environmental problems. It is essential that problems resulting in delay be quickly resolved so that all available new plants can be brought on line.

Natural gas curtailments for storage injection purposes will continue this summer as in the previous two summers. It is expected that the curtailments will equal or exceed the 555 billion cubic foot level experienced during the April 1, 1972 through October 31, 1972 period.

Current inventories of gasoline are well below normal levels for this time of year, and in anticipation of a projected 5.4 percent increase in use in 1973 over last year, the petroleum industry has to produce gasoline at a consistently high rate if localized shortages are to be avoided. Already the spot market on which surplus gasoline is normally sold, in large part to the independent marketing industry, has disappeared in many areas of the Nation.

Reports have been received from numbers of users that they are having great difficulty obtaining contractual supplies of diesel fuel. Diesel fuel supplies are reportedly being allocated in almost all parts of the country and to all classes of volume users. In many cases, however, the impact of the diesel supply is offset by greater efficiencies in the use of diesel in transportation operations.

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In face of the increasingly tight supply of most fuels, the Joint Board is urging programs of conservation of fuel and electric power. The era of energy abundance has passed. We must exercise great care in our use of energy, if we are to continue to meet our goals of cleaner air and water without suffering crippling shortages of fuel and energy. The Joint Board is coordinating a program of energy conservation, reaching out in three major directions: to the general public, to the Nation's industries and businesses, and to the Federal, State and local government agencies. Conservation of gasoline this spring and summer could alleviate any shortages that might occur. Conservation of electric power is also urged, to ease some of the pressure of tight fuel supplies by decreasing the amount used in electric power generation and to cut down peak load demands.

B. Electric Power Supply Situation

Current reports on the electric power situation indicate that the following areas have marginal capacity reserves or are dependent upon relatively new and immature units and could encounter difficulty in meeting summer peak demands· the Virginia-Carolinas area; peninsular Florida; the Mid-America Interpool Network (MAIN) area which covers Illinois, the eastern part of Wisconsin, the Upper Peninsula of Michigan, and the northeastern part of Missouri; and the Northwest Power Pool area of Oregon and Washington. The source of the difficulty in the Pacific Northwest is the small size of the winter snowpack that will adversely affect that predominantly hydroelectric area during the summer and the following winter.

At the beginning of the summer, total generating capacity in the contiguous United States is expected to be some 399,000 megawatts, compared to about 371,000 megawatts at the same time last year.

This figure includes 14,863 megawatts, or 3.7 percent of total installed capacity, provided by 29 nuclear units. This capacity level includes some units which have received operating licenses but which are not available for full load operation due to limitations imposed by environmental considerations, license restrictions, or technical problems. The major problem in assuring additional generating capacity is the delay in completion of electric generating units and high-voltage transmission lines.

A total of 35 steam-electric generation units of 300 megawatts or larger size, originally scheduled to be in service by the summer of 1973, will be delayed beyond that time. These 35 units represent 30,014 megawatts, and include 30 nuclear-fueled units totalling 27,389 megawatts and five fossil-fueled units totalling 2,625 megawatts. Two of the eight Regional Electric Reliability Councils accounted for almost half of the total delayed capacity. The Mid-Atlantic Area Coordination Agreement (MAAC), which includes systems in all or parts

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of the States of Pennsylvania, New Jersey, Delaware, Maryland, Virginia, and the District of Columbia, reports construction delays of seven nuclear units totalling 7,127 megawatts. The Southeastern Electric Reliability Council (SERC), which includes systems in all or parts of the States of Florida, Georgia, Alabama, South Carolina, North Carolina, Tennessee, Mississippi, Kentucky, Virginia and West Virginia, reports construction delays of nine nuclear units totalling 7,793 megawatts.

Virtually all nuclear units continue to suffer serious delays in coming into operation. Of 29 new nuclear units which had been scheduled to be in commercial operation during the summer 1972 season, at least 15 are still sufficiently delayed that they are not expected to be in service before August 1973. Fourteen new nuclear units, totalling 10,668 megawatts, none of which were available in June 1972, have been scheduled to be available for power generation in summer 1973.

Many fossil-fueled steam-electric units are also delayed in meeting expected schedules, and significant delays are being experienced in operation of hydroelectric projects and transmission circuits. If electric power facilities are to be adequate to meet demand in the next several years, the problems leading to such delays must be resolved as quickly as possible.

With regard to fuels delivered to electric power plants in the third quarter of 1972, 52.6 percent of the heating value was provided by coal, 30.4 percent by gas, and 17.0 percent by oil. For the third quarter, this required delivery to steam-electric plants of 92.3 million tons of coal, 111.4 million barrels of oil, and 1.17 trillion cubic feet of gas. In general, deliveries of coal in the third quarter were 10.8 percent over the quantities consumed during the same period last year, compared to large increases in the deliveries of oil, and a substantial decline in the use of natural gas by electric utilities. Of the coal currently delivered to steam plants, less than 6 percent could meet the standard of performance set for new fossil-fired steam generators. This explains the tendency to use oil in fossil-fired plants, as a consequence of the decreasing supply of natural gas and of moves to restrict its inefficient use as a boiler fuel for electric power generation.

C. Fuel Supply Situation

Except for possible shortages in some localized areas, fuel supply for electric power generation appears generally adequate for the spring and summer months barring serious interruptions in fuel production or transportation. For uses other than electric power generation, supplies of some fuels may be extremely tight and may require cutbacks in use of these fuels in order to meet essential needs.

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Weather throughout the Nation this past winter, while colder than the previous year, remained warmer than the 30 year normal. The cold early winter was offset, in most of the Nation, by a warmer than normal period in early 1973.

1. Coal

The weekly rate of production of coal in 1973 has been close to that in 1972, averaging about 11 million tons. This is considerably below the 13 million tons reached on a number of occasions in 1971 before the 44-day work stoppage in the latter part of that year. The lower production rate for coal this year may be attributed to several factors: (1) decline in productivity in underground mines, reported to result from compliance with health and safety regulations; (2) the closure of many small mines unable to comply with the mine health and safety regulations; (3) the closure of mines producing high-sulfur coal that cannot meet fuel quality standards in their normal marketing areas; and (4) the closure of some high-cost mines for economic reasons. The current production rate of steam coal is sufficient, however, to meet current requirements, barring lengthy interruptions to the mining or transportation of coal. About 60 percent of coal production is utilized by the electric utility industry. Requirements of coal for electric power are expected to increase 4 percent in 1973, to approximately 362 million tons. New coal-fired electric power plants coming on line this year have dedicated mining capacity to supply them coal.

Although steam coal supply is adequate to meet current requirements, the supply of metallurgical coal, particularly in the low and medium grades, is tight. These low-volatile coals are mined only in a limited number of areas and are necessary to the production of metallurgical coke, used in blast furnaces and foundries, as an essential ingredient in coking coal. Approximately half of the U. S. low-volatile coal production is used domestically by the iron and steel industry, and the remainder is exported. Although supply of metallurgical coal is tight, domestic requirements and foreign commitments during the spring and summer months should be met. The supply of metallurgical coke, an essential fuel in blast furnace operations, may be a serious problem. Existing coke ovens currently are operating at maximum production rates, but output is not sufficient to meet growing demand in some areas. Some steel companies, for example, are seeking coke abroad. Factors restricting the adequate supply of coke include high steel demand, new steel-making techniques requiring more coke, environmental regulations impacting on coke oven operation, and the poor condition of the coke ovens. Coking coal requirements for 1973 are expected to reach 90 million tons, 4 million tons above the 1972 level.

2. Natural Gas

Natural gas supplies will continue very tight, particularly in the Southeast, East Coast, Midwest, and Southwest sections of the country. This past winter saw the highest level of curtailments of pipeline delivery yet experienced. Declining field deliverability and the inability to contract for new supplies were expected to

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result in curtailed volumes of 564.5 billion cubic feet during the period from November 1972 through March 1973. These curtailment levels are somewhat greater than those projected earlier in the year, and compare with curtailed volumes of 236.5 billion cubic feet for the same period last year.

Gas this summer will not be freely available for all uses by large industries. As of March 1, 1973, nine major pipeline companies were experiencing major curtailments in the delivery of gas, due to declining supplies of gas available for transport. The companies are: Algonquin Gas Transmission Company, serving sections of New England; Arkansas-Louisiana Gas Company, serving parts of Louisiana, Arkansas, Texas and Oklahoma; the southern division of El Paso Natural Gas Company, serving markets in New Mexico, Texas, Arizona, Nevada, and southern California; Mississippi River Transmission Corporation, serving the St. Louis and Mississippi River Valley area; Panhandle Eastern Pipe Line Company, serving the mid-continent area; Texas Eastern Transmission Corporation, serving the Northeast; Transcontinental Gas Pipe Line Corporation, serving the East Coast and northeastern areas; Trunkline Gas Company, serving the upper Midwest; and United Gas Pipe Line Company, serving the Southeast region of the country. Through its five pipeline customers, United Gas Pipe Line Company, which reported curtailments of 25 percent of pipeline delivery, affects the supply of the twenty state region east of the Mississippi River. The pipeline companies will be updating their projections of gas supplies and requirements for this summer at the end of April.

Despite the colder than normal early winter season, with careful management of storage balances and peak-shaving fuels, gas utilities were able to meet the critical needs of the heating season. During the summer, pipeline companies will continue their curtailment programs. Deliveries of interruptible gas probably will not be any greater this summer than last winter. In some cases, interruptible gas deliveries will be further reduced as pipeline and distribution companies increasingly inject summer valley gas into storage to meet winter demands.

Priorities of deliveries of gas during periods of curtailment by pipeline companies under Federal Power Commission jurisdiction were issued in Order No. 467 of the Commission on January 8, 1973. This order and subsequent revisions set forth guidelines for development of consistent curtailment plans for pipeline companies. The actions of the Commission have begun the trend away from use of natural gas as a large volume boiler fuel, when alternate fuels can be used.

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3. Petroleum

With regard to petroleum, serious problems in obtaining adequate supply of some products may be experienced during the spring and summer months. The distillate problem which was expected at the end of the winter did not occur as a result of warmer than normal weather. The principal area of concern this summer is gasoline, with distillate buildup a critical factor during the warmer months.

As long as import flow continues unimpeded, no problems in residual fuel supply are anticipated. Residual fuel demand for 1973 is expected to run about 2.8 million barrels per day, approximately ten percent above 1972 levels. Potential still exists for problems in obtaining sufficient low-sulfur residual fuel oil to meet both demand and environmental standards.

Low inventory levels in gasoline will probably result in distribution problems in some areas of the Nation, creating localized shortages. The inventory level at the end of the first quarter of 1973, as shown in Figure 1, is lower than for any comparable period since 1968, even though 1973 demand is forecast to be almost 28 percent higher than in 1968.

Already this year, the independent gasoline marketers, many of whom base their operations to a considerable extent on the availability of lower-cost gasoline on the spot market, are finding it increasingly difficult to obtain adequate supplies. Reports of independent gasoline stations closing down have been received from all sections of the country. Commercial consumers of gasoline who are on long-term discount contracts for supply with producers or distributors are being placed on allocations, or held to previous year's level. Many commercial accounts are having difficulty in finding bids for contracts as they expire and have been forced to short-term supply arrangments at higher prices. Often, rural areas are served primarily by independent marketers; therefore, it is likely that the direct impact of the tightness of the spot gasoline market will be most acutely felt in those areas.

The level to which stocks of gasoline can fall without causing problems of major dislocation is difficult to assess. If the present rate of gasoline inventory drawdown continues, a difficult stock position may be reached before the heaviest demand period of the third quarter, when demand is expected to reach a new high of over seven million barrels per day. While shortages may occur in some areas of the Nation, these are not expected to be of a severity to warrant rationing by the Federal Government.

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In spite of the fact that inventories of distillate oils, including diesel, are above last year's level for this time (see Figure 2), continuing complaints are being received from those attempting to secure contract supplies either for resale or for direct consumption. In these cases, disagreements over price seem to be a common factor. Now that the heating season has ended, more diesel fuel should be available from distillate production.

At the current time, difficulties in contracting for supply of diesel fuel are frequently reported in the Midwest, although some problems are being experienced in the East and West. A tightness in diesel fuel supply is being experienced by surface carriers of all types: motor freight carriers east and west of the Rockies; railroads in the East and Midwest; and inland waterways on the Mississippi and Ohio Rivers. In many cases, systems have been notified that they may expect cutbacks in their fuel contracts, some to their 1972 levels, and others to a given percent of their current contract. Those companies that bought fuels without a written contract are finding it difficult, in many cases, to obtain supplies. Some difficulty in obtaining diesel fuel for marine purposes has also been reported at coastal ports.

Adequate diesel fuel for farming is also of concern this spring and summer. The high water content of the soil this spring has resulted in delayed preparation of fields for planting. About 12 percent more acreage is designated for crop production this season. Because of poor weather conditions last fall, much field work was postponed until the spring. This work will be done with large tractors, many of which are large consumers of diesel fuel. Fuel needs for farming in 1973 are estimated to be 2.5 billion gallons of diesel fuel and 4 billion gallons of gasoline. Farm fuel demands peak sharply during spring and early summer.

Overall, demand for distillate for 1973 is estimated to be 5.8 percent greater than 1972. Historically, production and inventories of diesel fuel exceed demand during the spring and summer. This is the time for buildup of all distillate inventories for the winter. Transportation use of diesel, for example, which constitutes only about 30 percent of total distillate use, increases between April and August, and is expected to peak in October.

With respect to refinery operations, Canadian controls on crude exports, first imposed in March of 1973, have not posed any significant problems thus far. Current tightness in availability of "sweet" crude is reported to be a major cause of domestic refineries' difficulties in operating nearer their rated capacity. Also, accidents and breakdowns in several refineries have been reported.

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D. Conclusion

Shortfalls in supply of any fuel or in nuclear generating capacity must lead to requirements for alternate fuels, primarily low-sulfur oil. When coal can no longer be burned due to environmental regulations, residual oil is frequently used. When natural gas deliveries are interrupted, either residual fuel oil or coal is often substituted in large volume boiler fuel applications but for smaller specialized uses liquified petroleum gases (LPG) or lighter oils are often required. The additional gas turbine capacity installed to meet peak load requirements on many electric utility systems uses either gas or distillate oil.

The additional constraints on fuel use resulting from environmental regulations increase the trend to use lighter, cleaner oils in place of the heavier oils. In this regard, in his message to the Congress on energy, President Nixon specifically asked that the Nation not move in a precipitous way toward meeting the secondary air quality standards, while we continue our careful efforts to meet the primary, health-related standards.

In summary, the pressures of the fuel shortage, the delays in nuclear generating plants being ready for operation, and the impact of environmental standards result in an expanded requirement to import more of our energy. Under the new license-fee system for imports, the flexibility is available to deal quickly and efficiently with our import requirements. Obtaining additional imports, however, might prove a problem, given the tightening supply of "sweet" crude in the world.

Conservation of fuel and energy is of critical importance, particularly with regard to decreasing consumption of gasoline.

Prepared By:

Office of Emergency Preparedness
Government Preparedness Office
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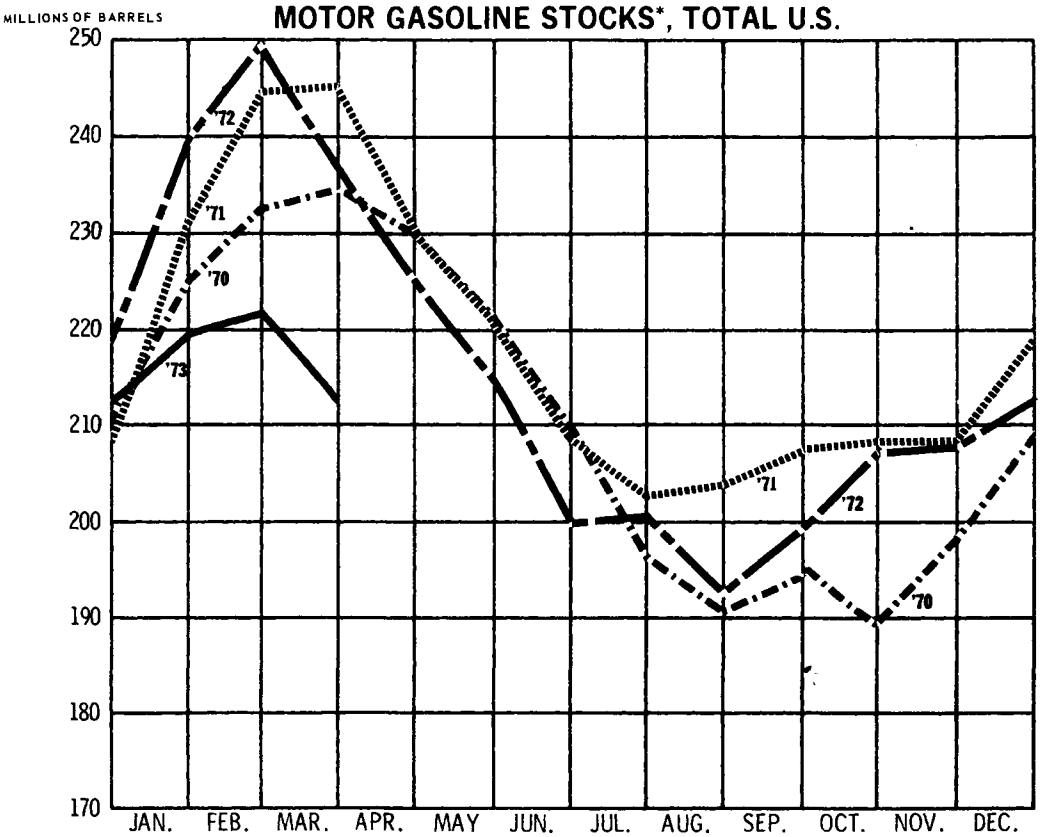
FIGURE 1



*END OF MONTH INVENTORIES (OR END OF LAST WEEK IN MONTH FOR API DATA) HELD BY REFINERIES, BULK TERMINALS AND PIPELINES
SOURCE: THRU DEC. 1972 – MONTHLY PETROLEUM STATEMENTS, US DOI, BUREAU OF MINES
FROM JAN. 1973 – API WEEKLY STATISTICAL BULLETINS

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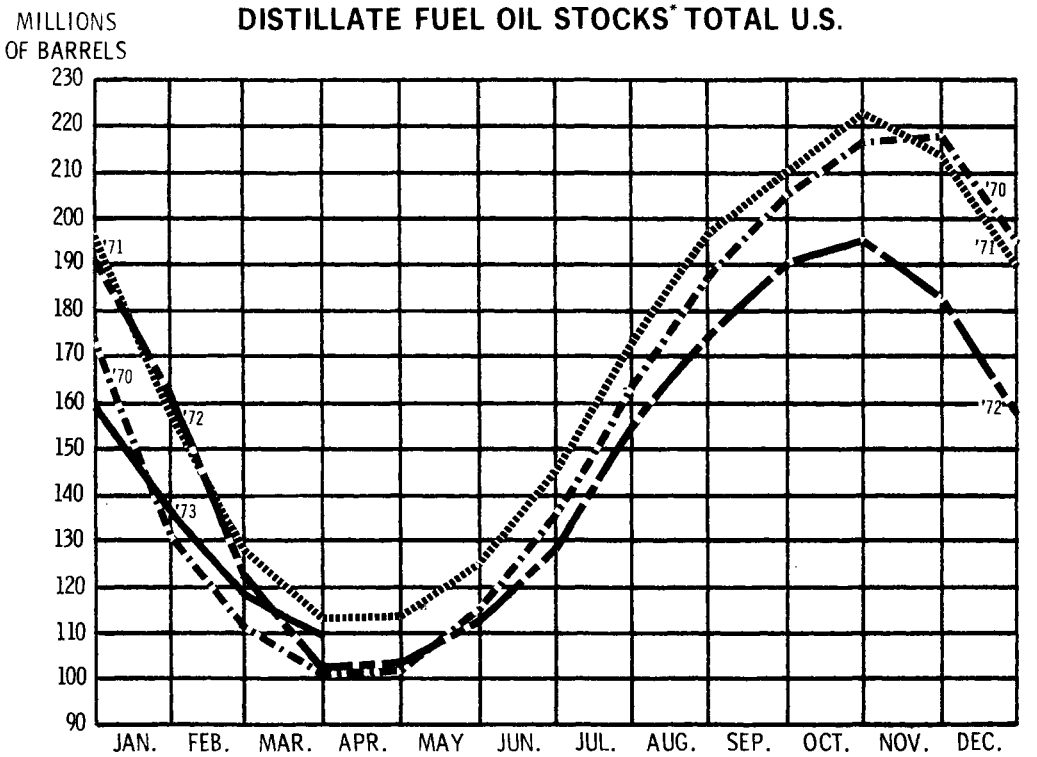
FIGURE 2



* END OF MONTH INVENTORIES (OR END OF LAST WEEK IN MONTH FOR API DATA) HELD BY REFINERIES, BULK TERMINALS AND PIPELINES

SOURCE: THRU NOV. 1972 - MONTHLY PETROLEUM STATEMENTS, US DOI, BUREAU OF MINES
AFTER NOV. 1972 - API WEEKLY STATISTICAL BULLETINS

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Senator McINTYRE. You are part of the team that is working with the Secretary to bring out this allocation program, are you not?

Mr. TRENT. Yes, sir.

Senator McINTYRE. One thing I want to ask you, it is my understanding that the Office of Emergency Preparedness is to be abolished at the end of this month and its functions will be placed around several agencies. Does this mean that OEP will no longer have any role to play with regard to the petroleum industry and its present shortage?

Mr. TRENT. It is my understanding that the oil and energy staff, or at least a part of it, has already been moved to the Department of the Treasury. The Department of the Interior will continue to function as a part of the team. The functions which relate to the Defense Production Act which provides additional authority which can be used depending on the relationship of any shortages that might arise to the defense side of the sector will continue and be transferred to the General Services Administration.

There will be a continuing operation of the Joint Board in the field which will supply information on individual station closings or situations that develop on a State-by-State basis. The way the operation is proceeding at this time in activating the regional joint boards which function under the chairmanship of my individual directors, it is currently envisioned that they will continue and will work very closely with the State governments and the Governors of the individual States to provide information and support so that an integrated program can be carried forward.

Senator McINTYRE. Where am I going to find the Joint Board on Fuel Supply and Fuel Transport after the end of this month?

Mr. TRENT. The chairmanship of the Joint Board would continue with the head of the Office of Emergency Preparedness in the General Services Administration and will work continually on a very close basis with the experts in the Department of the Interior.

Senator McINTYRE. Over at the GSA?

Mr. TRENT. Yes, sir.

Senator McINTYRE. Thank you very much for your testimony here this morning.

Mr. TRENT. Thank you, Mr. Chairman.

Senator McINTYRE. We will call as our next witness Jerry S. Cohen and Mr. Charles Binsted, representing the National Congress of Petroleum Retailers.

We are glad to welcome you here this morning before the committee.

'STATEMENT OF JERRY S. COHEN AND CHARLES BINSTED, NATIONAL CONGRESS OF PETROLEUM RETAILERS, ACCOMPANIED BY JOHN HEMMERICK, EXECUTIVE DIRECTOR

Mr. BINSTED. Mr. Chairman, we have a short statement and we will respond to questions.

I am Charles Binsted, president of the National Congress of Petroleum Retailers. We represent the branded dealers in the United States and Puerto Rico.

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Jerry Cohen is our general counsel and John Hemmerick on my left is our executive director.

Senator McIntyre. Are these independent dealers?

Mr. Binsted. We call them independents in quotes. We are lessee dealers of the major oil companies primarily on relatively short-term leases, 6 months to I think 3 years you will find is a long-term lease.

Senator Johnston. What does that mean?

Mr. Binsted. To explain it briefly, we are the service station dealers that fly the major brand flags.

Most of us lease our property from the major oil companies.

Senator Johnston. It is like Gulf or Exxon, most of those are represented by you?

Mr. Binsted. That is right.

Senator Johnston. And a few of those stations are owned directly by the majors?

Mr. Binsted. A few of them are owned directly by the majors and operated by the majors and we will deal with the forward integration in our statement, sir.

Senator Johnston. OK.

Senator McIntyre. Will you tell us how many members you have got.

Mr. Binsted. Approximately 60,000, sir.

Senator McIntyre. All right, sir. Go right ahead.

Mr. Binsted. Crucial changes have occurred in the past few months in the refining and marketing of gasoline which will have profound effects on the consumer motorist. The effect will be higher and higher prices at less and less service stations as competition at retail comes under the complete control of the major petroleum companies.

Prior to that time the "incremental barrel" at the refinery level had governed the practices of the major producers of gasoline. Incremental barrel economics is now dead. The major producers and refiners instead are moving downstream to retailing as a source of profit rather than seeking their profits primarily at the producing and refining level.

Jerry asked me to give you a short explanation of the incremental barrel. I guess we all feel that everyone in the industry understands it. It is the surplus, of course, of products that has been on the market in past years that has been available to the private brand types in the industry.

Senator McIntyre. The excess supply?

Mr. Binsted. Yes, sir.

Mr. Cohen. I might just add to that, Senator, in terms of the economics, and I hasten to add and you will soon learn I am not an economist. but the economics of refinery, as we understand it, for instance is that the first 12 or 13 or 14 hours that the refinery runs, the barrel is costing, say, $1.50 or $2 a barrel to refine it, but then at that point the cost begins to drop because of the economics of maintaining the refinery at a full capacity on a 24-hour cycle.

So, the last 8 hours are a much cheaper barrel.

It does not cost as much money to refine that barrel as it does the barrels the first 12 to 14 hours it runs. It is that cheap barrel on the market that has caused a lot of the pricing problems in the past.

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In other words, the refineries needed someone to take that surplus and cheap barrel off their hands in order to keep the refinery running.

That barrel was available to wholesalers, it was available to some jobbers.

That is what we refer to as the incremental barrel the surplus and cheaper barrel of gasoline.

Mr. BINSTED. I might add at this point that Mr. Cohen, before going into private practice, was general counsel for the Senate Antitrust and Monopoly Subcommittee, and in that capacity had a good deal of experience in petroleum marketing hearings.

Mr. COHEN. But not answering questions.

Mr. BINSTED. This change in concept is producing an upheaval in the marketing of gasoline.

Among other things it means the following: First, the independent nonbrand distributor and dealer is no longer needed as he was in the past to take the surplus cheap incremental barrels from the refiners. Second, jobbers, both branded and unbranded, are expendable. Third, refiners are integrating forward into the retail market by two methods, secondary branding and self-operation of the choicest stations.

The result, of course, will be to extend the shared monopoly which the majors now have at the producing and refining levels into the retailing of gasoline. They will completely control the price of gasoline from wellhead to nozzle. In the past, the only price competition has been at the retail end, between dealers

By secondary branding, we mean that you will find many of the major producer-refiners that have their own brand of product also have a secondary brand.

Exxon, for example, has Alert that is moving into this area.

Senator JOHNSTON. What is the reason for that?

Mr. BINSTED. Our statement will indicate, I believe, sir, that they want to move into all segments of the market. If they are in the secondary branding market, they are competing directly with the independent private branders.

Also, as we have indicated here, if they are operating their own stations on a commission or a company-operated brand, they are in competition with their own branded dealer.

By this method they are or can exercise price control throughout the market.

Senator JOHNSTON. In other words, rather than bid and operate all their own stations, they want to go to, say, Alert to give a lower price than the regular Exxon station?

Mr. BINSTED. This would be correct. This would be my interpretation of it. Yes, sir. You see, we are captive as far as prices are concerned. We buy from our branded supplier and we buy at a tank wagon price that is established by that supplier.

We have no other market to turn to.

Senator MCINTYRE. I am glad you got that anti-monopoly fellow here because some of this stuff scares me to death.

I cannot imagine being tied into a big company like Exxon, have some fellow come around every quarter and beat me over the head because I am not selling enough gasoline and having them running an Alert station 200 yards down the street and I have no protection in my contract.

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Mr. BINSTED. Across the street, Senator.

Senator MCINTYRE. Across the street. That is an element that we are not dealing with today. You go ahead and tell us what is happening here.

Mr. BINSTED. Yes, sir.

Once the same majors take over the retailing function, price competition for all practical purposes in so far as the consumer-motorist is concerned will be at an end.

The refusals to deal, which have been occurring, are the ultimate anticompetitive weapon and frankly, up to now many branded dealers have not been unhappy at the curtailment of gasoline deliveries to independents. Our concern has not been that we had to compete with independent nonbranded dealers and with both branded and unbranded jobbers but rather that they have received the same gasoline from the same suppliers at much lower prices than it has been sold to the branded dealers.

However, we have dealt with the majors too long not to know that the weapons they are using now to destroy independents and many jobbers can just as easily be turned upon their own dealers tomorrow. Indeed, many of our dealers are presently being required to enter into allocation agreements.

The power to allocate is the power to discipline and control competition. If gasoline must be allocated, and apparently it must until someone gets to the cause of the alleged shortage, that allocation must not be left in the hands of the majors themselves.

Senator MCINTYRE. That was one of the big arguments that we had before this amendment got into this Economic Stabilization bill.

It seemed to me they were the worst people in the world to do the allocating. I come from a consuming State, my good friend over here comes from a producing State, he did not agree with me at all, I am sure.

I just cannot imagine these fellows doing the allocation.

Mr. BINSTED. We were relatively happy to see that there was going to be a fairness doctrine this morning in the allocation of gasoline, but we have some reluctance to support a voluntary program unless we can see that it will really work, or if it has some teeth in it so that some remedial action can be taken immediately if this voluntary program is not followed.

Gasoline should be available to all retailers independent and branded alike. However, price favoritism to the jobber-dealer and independent should cease and the allocation of the gasoline should be on a historical basis only.

We do support a program which would allocate gasoline to the independents by the producers and refiners who have historically supplied them in the past, but we believe in a market where there is no longer a surplus, the 4 to 10-cent differential should no longer exist.

As much as we disfavor the intrusion of the Government into the competitive area, this is an instance where Government intrusion is needed to preserve the integrity of competition.

However, solving the allocation problem will not solve the competitive problem except in the very short run. At best, it is only a means of delaying the inevitable, namely, the total control and ownership of gasoline retailing by major petroleum companies. The majors have

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already withdrawn from some sections of the country and expanded in others. The result is that fewer and fewer sources of supply are available to consumers in any given part of the country. The same majors are expanding into the operation of their own stations, by selling both their own brands and their secondary brands at key stations in major marketing areas.

By so doing, the majors can completely control the price of gasoline in such areas.

If I might digress for just a moment to give you an example of what can happen: One company in particular has withdrawn supplies to two independents. They now have plenty of gasoline for themselves. Apparently so much so that their new strategy seems to be to abandon their TBA program—tires, batteries, accessories and so forth—take back the stations themselves or take back a substantial number of the stations, themselves, to operate as gasoline only outlets that high volume.

This would indicate to me they are taking advantage of a shortage situation.

The basic solution is to prohibit refiners and producers from integrating forward into the retailing of gasoline—no matter which subterfuge or device they utilize to do so.

Further, the same majors must be required to divest themselves of the stations they presently operate.

If divestiture seems too drastic a solution, then at least, gasoline dealers-day-in-court legislation should be passed, so that the dealer can maintain a degree of pricing independence.

Incidentally, a bill has been introduced by the Senate just recently.

Senator McIntyre. What bill is that?

Mr. Binsted. Jerry, can you give me the number?

Mr. Cohen. I do not know the number. Senator Moss introduced it on May 3. It is in the Commerce Committee.

Mr. Binsted. The history of the sorry energy mess in which the country now finds itself is the history of too little, too late. Problems you are attempting to solve now were predicted in congressional hearings and other sources years ago. Yet the Government has continued to follow policies favoring the big oil companies at the expense of the consumers. It has insured that this crisis would be inevitable.

The final chapter of the petroleum story is now being written. The majors with Government assistance have been allowed to monopolize production and refining. They have been allowed to control, but not monopolize, retail markets. The so-called gasoline shortage is now being used as the weapon to allow them to complete the process of monopolizing the total marketing system. Unless this and other congressional committees are willing to deal with the problems of forward integration and dealer independence, retail competition will disappear, and Congress and the administration will once again have done too little too late.

Senator McIntyre. From the tenor of your statement, I have the distinctive impression you are saying that the major oil companies are taking advantage of the present shortage situation to destroy a substantial part of the marketing segment of the industry. Is that correct?

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Mr. BINSTED. I do not want to paint them all with the same brush, Mr. Chairman, but we have seen it happen. Apparently they are taking advantage of this situation to forward integrate into retailing, to take over what had been historically dealer-type operations, to move with greater speed into secondary branding, to get that share of the market and we do have some concern with this type of operation.

Senator MCINTYRE. On Tuesday of this week, Professor Allvine testified that, in order to restore a meaningful level of competition in the oil industry that the crude production part of the industry must be severed or divorced from the refining and marketing sectors.

Do you agree with that?

Mr. BINSTED. We have supported functional divorcement, sir, at the refinery gate. I do not know exactly what his statement contained. Maybe Jerry would like to comment on that.

Mr. COHEN. I think there is some question as to where the divorcement ought to take place. We always felt there ought to be at least a divorcement at the refinery gate, that the most important place for divorcement is between refining and retailing, that once you have refined the product, from then on, let a new market handle it, let other competitors deal with it rather than the refiner.

If you let that refiner control the output into the retail market, then you let him also compete with his own purchasers, whether they be independent or branded, and it makes it very difficult to have any kind of meaningful competition.

Senator MCINTYRE. As I understand it, you would favor a divorcement between the production end and the marketing end?

Mr. BINSTED. Between production and marketing, right.

Senator MCINTYRE. You put refining and production of crude into one sector and marketing over here.

Mr. BINSTED. We think that is the most meaningful.

I might say personally I also think it is a good idea to have it divorced at the other level, but from our interest, the retail interest, we think as far as the consumer is concerned, the divorcement at the refinery level is the more important.

Senator MCINTYRE. My understanding is that bills that have dealt with this problem, perhaps not as you and I have discussed it, that have dealt with divorcement generally have been introduced and that is about as far as they ever got.

Mr. BINSTED. That is correct, we have not been successful in that area I would say.

Senator MCINTYRE. Maybe a new era is coming about. With this shortage we may get some movement. I do not know. Is the gasoline that the independent nonbranded dealers have the same as the gasoline that the branded dealers have?

Mr. BINSTED. I would say it is basically the same, and I think Senator Hart's committee, when it studied the fungibility of the product indicated that it was basically the same.

The Government bought on specifications. We know that there is an exchange of product throughout the United States. It is true that there are different additives. What effect these additives have, unfortunately, I am not competent to discuss. I really do not know how much good HTA does or TCP or whatever else is in the various

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gasolines. But basically, I understand that the produce is primarily the same, and I know that there are exchange agreements between oil companies in times of emergency and because it is economically beneficial for them to exchange product. A bill was just passed in Maryland this year—the Governor has not signed it yet; there will be a veto hearing on it on the 14th of this month to determine whether or not he will sign it—which does deal with the exchange of product.

Senator McIntyre. Senator Johnston.

Senator Johnston. When you say there ought to be a divorcement, do you mean that Exxon should not be able to have Exxon brand stations with Exxon dealers, or that simply they should not be able to directly operate those stations?

Mr. Binsted. First of all, I think we are opposed to duel distribution as such, that is, their operating the stations themselves in competition with their dealers, but I think, basically in the long run—and I realize the problems inherent in divorcement or divestiture—but I think in the long run we would be much better off in a competitive market if we allowed the dealers to truly make their own independent judgments.

Senator Johnston. Would this be with an Exxon brand, for example?

Mr. Binsted. Yes, sir, with an Exxon brand, yes, sir. You could have an Exxon brand. I do not necessarily believe that we should see the demise of all the branded products. But our operation now is under very short-term lease that the courts have called inherently coercive.

Senator Johnston. That was my next question. How much autonomy, how much independence have the branded dealers ever had?

Mr. Binsted. It does not amount to very much. I do not mean to be glib, sir, but only that which we are allowed, I would say.

Senator Johnston. It is a very short term. It is what, 6 months or a year.

Mr. Binsted. Leases from 6 months and some leases with some of them, and I believe some majors. I am not sure Crown, for instance. I have seen 30-day leases with them. I do not know whether you want to categorize them as a major or not. But with other majors, a 6 months' lease is not at all unusual.

A 1-year lease is not unusual and no first-term lease is ever written to my knowledge for more than 1 year.,

Senator Johnston. I am interested in this Exxon-Alert business. I have never shopped at Alert's and I did not really know about this secondary branding. So, you are going to have to educate me from the ground up. What is the difference between Exxon and Alert? First of all, you do not know whether there is any real difference in the product, is that right?

Mr. Binsted. I really do not know. It has been very hush. I do not believe that the product is coming—I have got to take that back, I am very sorry, I hate to deal in hearsay. I can only tell you I heard the Alert product here was coming out of Springfield, but I do not know that to be a fact.

Senator Johnston. Is that the same refinery that supplies Exxon's?

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Mr. BINSTED. That is the same that supplies Exxon's other dealers.

Senator JOHNSTON. Is the price different?

Mr. BINSTED. Yes, sir.

Senator JOHNSTON. Are the services offered by the two stations different?

Mr. BINSTED. The Alert-type stations or the secondary brands generally follow what we call a Hess pattern, they are gasoline-only outlets, high volume gasoline only, and provide no other service.

Senator JOHNSTON. You do not get your windshield wiped?

Mr. BINSTED. You may get your windshield wiped. Some do that. Some do not. I think that depends now on the competition in the market.

Senator JOHNSTON. They are operated and owned directly by Exxon.

Mr. BINSTED. It is my understanding that it is probably set up as a subsidiary corporation, a separate corporation.

Senator JOHNSTON. But wholly owned by Exxon.

Mr. BINSTED. To the best of my knowledge. Wholly owned subsidiary.

Senator JOHNSTON. They do not have a lease with any dealer as a brand name dealer would.

Mr. BINSTED. To my knowledge now, they are being company operated.

Senator JOHNSTON. When you talk about divorcement, do you have a plan for divorcement as to how far you would go with it, or do you just think in general there needs to be some kind of divorcement?

Mr. BINSTED. We have had—and I am going to let Jerry respond to this—we have had, Mr. Chairman, some bills introduced back as far as when we had hearings before the Roosevelt committee back in 1955, which is the first t ime I think we dealt with it in the House of Representatives. I would like to let Jerry respond to this.

Mr. COHEN. In the last 3 or 4 years, we have generally supported the position, thinking that competition makes best sense if you keep the supplier from owning outlets in a regional market. I will go a step further, if we had any encouragement anywhere from any Senator on any committee, we would be delighted to go ahead and use the facilities we do have and expertise that we can obtain to draft up a divorcement plan.

Senator JOHNSTON. I think Senator McIntyre has encouraged you tremendously and I am very curious.

Senator MCINTYRE. It sounds like a good idea.

We ought to take it out of mothballs and try to do it again.

Senator JOHNSTON. We have a brand new problem now that we have not had in the past years.

Mr. COHEN. Our only point is that the brand new problem makes it even more important to keep that retail segment independent. What the House brand does is to allow the major to control the unbranded market. In other words, he is selling his house brand at maybe 2 cents below the branded price. So, he has that as his control mechanism in the unbranded market. Then by owning key stations in the branded market—by operating key stations, he is able to control the price of that gasoline in his own markets.

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In regard to branded dealers, it is bad enough to have your lease canceled, if you do not go along, but it is even worse if you have got one of your suppliers' own stations setting a price in your area, because there is no way you can vary from that price, because you are going to lose business directly.

This is why we have always felt this was a two-step problem. No. 1, we wanted a dealer's-day-in-court legislation to give us a little more independence in our pricing and No. 2, this new crisis it seems to us makes it even more important not to let them integrate further which gives them an additional method of controlling not just the branded market, but the unbranded retail market. It is a two-step thing.

Mr. BINSTED. I believe, sir, that the bill that has been introduced is known as the Fairness-In Petroleum Marketing Act and that would give the independent branded dealers some relief from controls.

Senator MCINTYRE. To what committee has the bill been referred, sir?

Mr. BINSTED. The Commerce Committee. It is an amendment to the FTC Act.

Senator MCINTYRE. I do not like to send any oil bills to Finance. They get shelved quickly.

Mr. BINSTED. It is an amendent to the Federal Trade Commission Act.

Senator MCINTYRE. We will take a look at it after we get through these hearings.

I want to thank you gentlemen. Time is getting short.

[The complete statement of the National Congress of Petroleum Dealers follows:]

STATEMENT OF CHARLES BINSTED, PRESIDENT, NATIONAL CONGRESS OF PETROLEUM RETAILERS

Crucial changes have occurred in the past few months in the refining and marketing of gasoline which will have profound effects on the consumer-motorist. The effect will be higher and higher prices at less and less service stations as competition at retail comes under the complete control of the major petroleum companies.

Prior to that time the "incremental barrel" at the refinery level had governed the practices of the major producers of gasoline. "Incremental barrel" economics is now dead. The major producers and refiners instead are moving downstream to retailing as a source of profit rather than seeking their profits primarily at the producing and refining level.

This change in concept is producing an upheaval in the marketing of gasoline. Among other things it means the following: First, the independent non-branded distributor and dealer is no longer needed as he was in the past to take the surplus cheap incremental barrels from the refiners. Second, jobbers—both branded and unbranded—are expendable. Third, refiners are integrating forward into the retail market by two methods—secondary branding and self-operation of the choicest stations.

The result, of course, will be to extend the shared monopoly which the majors now have at the producing and refining levels into the retailing of gasoline. They will completely control the price of gasoline from wellhead to nozzle. In the past, the only price competition has been at the retail end—between dealers. Once the same majors take over the retailing function, price competition for all practical purposes insofar as the consumer-motorist is concerned will be at an end.

The refusal to deal, which has been occurring, is the ultimate anticompetitive weapon, and frankly, up to now many branded dealers have not been unhappy

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at the curtailment of gasoline deliveries to independents. Our concern has not been that we had to compete with independent non-branded dealers and with both branded and unbranded jobbers, but rather that they have received the same gasoline from the same suppliers at much lower prices than it has been sold to the branded dealers.

However, we have dealt with the majors too long not to know that the weapons they are using now to destroy independents and many jobbers can just as easily be turned upon their own dealers tomorrow. Indeed, many of our dealers are presently being required to enter into allocation agreements.

The power to allocate is the power to discipline and control competition. If gasoline must be allocated—and apparently it must until someone gets to the cause of the alleged shortage—that allocation must not be left in the hands of the majors themselves. To do so is to insure that retail competition will be a thing of the past in the marketing of gasoline.

Gasoline should be available to all retailers independent and branded alike. However, price favoritism to the jobber-dealer and independent should cease and the allocation of the gasoline should be on a historical basis only.

As much as we disfavor the intrusion of the Government into the competitive area, this is an instance where Government intrusion is needed to preserve the integrity of competition.

However, solving the allocation problem will not solve the competitive problem except in the very short run. At best, it is only a means of delaying the inevitable, namely, the total control and ownership of gasoline retailing by major petroleum companies. The majors have already withdrawn from some sections of the country and expanded in others. The result is that fewer and fewer sources of supply are available to consumers in any given part of the country. The same majors are expanding into the operation of their own stations, by selling both their own brands and their secondary brands at key stations in major marketing areas. By so doing the majors can completely control the price of gasoline in such areas.

The basic solution is to prohibit refiners and producers from integrating forward into the retailing of gasoline—no matter which subterfuge or device they utilize to do so

Further, the same majors must be required to divest themselves of the stations they presently operate.

If divestiture seems too drastic a solution, then at least, gasoline dealers-day-in-Court legislation should be passed, so that the dealer can maintain a degree of pricing independence.

The history of the sorry energy mess in which the country now finds itself is the history of too little too late. Problems you are attempting to solve now were predicted in congressional hearings and other sources years ago. Yet the Government has continued to follow policies favoring the big oil companies at the expense of consumers. It has insured that this crisis would be inevitable.

The final chapter of the petroleum story is now being written. The majors with Government assistance have been allowed to monopolize production and refining. They have been allowed to control, but not monopolize, retail markets. The so-called gasoline shortage is now being used as the weapon to allow them to complete the process of monopolizing the total marketing system. Unless this and other congressional committees are willing to deal with the problems of forward integration and dealer independence, retail competition will disappear, and Congress and the Administration will once again have done too little too late.

Senator McIntyre. We call as our final witness this morning, Mr. Edward Jason Dryer, representing the Independent Refiners Association of America.

We are happy to welcome you here this morning, Mr. Dryer. We have your statement which will be printed in the record in its entirety. Those parts of your statement you feel that you can condense or paraphrase or state in your own words, that will be fine.

On the other hand, I want you to feel free to go ahead and read the entire statement if you think it makes a more proper presentation of your position. Will you also introduce those at the witness table with you?

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STATEMENT OF EDWIN JASON DRYER, INDEPENDENT REFINERS ASSOCIATION OF AMERICA, ACCOMPANIED BY J. H. PITTINGER OF APCO OIL CORP., FRED S. VICTOR OF NATIONAL COOPERATIVE REFINERY ASSOCIATION, AND O. L. GARRETSON OF PLATEAU, INC.

Mr. DRYER. To save the committee's time by not reading my statement but just summarizing a couple of the key points I will proceed.

Before doing so, I would like to introduce and identify the three gentlemen who accompany me. On my immediate left is Mr. J. H. Pittinger of Apco Oil Co., an independent refining company with plants having an aggregate capacity of about 37,000 barrels per day. The plants are located in Kansas and Oklahoma.

On my immediate right is Mr. Fred S. Victor of the National Cooperative Refinery Association.

The National Refinery Association is not an association in a conventional sense. It is the name of a refining company which has a capacity of about 52,000 barrels per day at McPherson, Kans., and it is owned by, and represents in oil refining, a number of farm cooperatives and the interests of some 2 million farmers.

On my far right is Mr. O. L. Garretson of Plateau, Inc. Plateau is an independent refining company with a capacity of about 5,200 barrels per day in New Mexico.

Senator MCINTYRE. That would be a pretty small refinery.

Mr. DRYER. Very small. So we have a variety of sizes and types and locations of independent refiners before you to advise you and respond to your questions.

Senator MCINTYRE. There is a vote on the floor. I will be back as soon as I can to continue with your testimony.

[Recess.]

Senator MCINTYRE. The committee will come to order.

Mr. Dryer, will you proceed to complete your statement, please.

Mr. DRYER. Mr. Chairman, I think the most important thing I can do is to dispel any illusion which may be based upon Mr. Simon's planned assurances to you this morning that everything is really being done that can be done to protect the independent refiner and to provide gasoline for the consumer.

We believe that these officials are sincere in their desire to protect the independent segment of the industry, but they have not, in fact, done everything that can be done.

For example, over 300,000 barrels a day of refining capacity in independent hands is still unutilized.

We have made specific suggestions to the administration as to methods or measures which can be taken within the structure of their new import program which will operate to fill this idle capacity and we say that those steps should be taken.

We attached to our statement a summary of eight steps that will work in that direction. Some may say, well, there are problems in getting crude oil into all of these independent refining plants.

The short answer to that is that when there were incentives in the form of import tickets of value, the ordinary interplay of market forces operated to get the crude oil into these plants.

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Right up to the day the new proclamation came out, deals were under negotiation, on the verge of consummation, only waiting a little clarification as to what the new import program might be which would have provided oil for these refining plants.

So, we say it can be done, it can be done without the formality of government regulation if the necessary incentives are provided.

Senator McINTYRE. One thing that has come out during these hearings is the fact that many of the independent refineries are not able to handle the high sulfur content crude.

So, would your plan revolve around some distortions in order to get you the type of crude you can handle?

Mr. DRYER. No. It would involve getting the same type of sweet crude we have had in the past several years. We get it by exchanging it with the major oil company who now owns or controls it who then replaces that domestic crude oil released to us by an increase in his foreign imports.

He has given the incentive to do so, because we will exchange with him an import ticket which has some value. The trouble with the present program is not in the structure of the program but a few things which can be taken care of overnight.

Instead of bolstering the value of independent refiner's tickets and thus restoring and continuing an incentive for these exchanges, which has existed for 14 years, they have cut those values out overnight by authorizing an unlimited quantity of imports to anyone who wants to pay 10.5 cents a barrel.

Prior to this proclamation, while import ticket values had declined, there was an inherent value about 40 cents, no matter what, even if foreign oil cost more.

With the fee simple which they have established, they could prescribe by the setting of the fee, the amount of import ticket value. But instead of setting it at 42 cents, which is a penny a gallon and had been under consideration right up to the very last minute, they cut the fee and therefore cut the value of import tickets to 10.5 cents.

We say that action was unfair to independent refiners who had come to depend upon the value of their import tickets for over 14 years. We also say that it is unnecessary.

Now that action was taken because it was unnecessary in terms of any interest of the consumer. The implication there may exist in some of the announcements connected with the new program that the administration was motivated by the interest of the consumer in setting a fee of only 10.5 cents instead of 42 cents. But the fact of the matter is that almost all imports in 1973 and the bulk of them in 1974 will be covered by fee-exempt licenses.

So, the amount of the fee will not enter into cost for the industry as a whole at all. It just represents a transfer of cost within the industry. What has happened is they have taken away what value the independent refiners had over all these years and turned it over to the companies who no longer have to get our import tickets.

So, this is one thing that they have done that is adverse. There are other things that they can do to correct this stiuation and to make these values realizable so we can get the oil to operate these plants at capacity.

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One of the most simple things that can be done, for example, is to impose a requirement that the fee-exempt license held by anybody be used no faster than 30 percent per-quarter.

Then the coastal major will have to come to us ratably throughout the year to get the tickets that he would otherwise get from us and which he could otherwise delay picking up until the end of the year.

Having regard for the independents, both marketers and refiners, the administration says we are going to bolster up the Oil-Import Appeal Board and they can give fee-exempt licenses without limit. But what happened on May 2 when they published the guidelines for the Oil Import Appeals Board?

The guidelines say that, if a petitioner is in its total oil operations making a profit, he can not get an award from the Oil Import Appeals Board.

Every efficient independent refiner is denied access to the Oil-Import Appeals Board, even if he is riding only at 60 percent of capacity.

We think that this is an inadvertent interpretation of language in the new guidelines, but as of last Tuesday, the Board confirmed to me that that was the way they were interpreting it, that the same old rules that applied over the last several years of strict exceptional financial hardships continued to apply.

What happened last fall when those standards were applied? A host of refiners went before the Board and I can cite case after case in which these companies said, if you give us the award, we have the arrangements by which we can get the oil, we can trade it with a crude holding major company and get the oil to operate at capacity.

In case after case because the company was not on the verge of bankruptcy, the award was turned down, the company cut back its rate of operations at the very time that this shortage was developing.

This is an aspect of the present program which Mr. Simon himself can correct overnight with a letter, because he is in charge of the Import Appeals Board.

All of our suggestions are contained in the attachment to our statement. What I would appreciate greatly is, if the Committee could ask Mr. Simon and the administration whether, in fact, there is any justification and if so, what it is for cutting the fee from 42 cents to 10.5 cents, only for this 2-year period, when the only effect can be to hurt the independent refiner and to give an illusion which is not valid in fact that they are helping the consumer.

I think, if we got that explanation, we would find that there is plenty of reason for going back to the 42 centrate now.

Mr. Chairman, that is all I wanted to say. In fact, I did not expect to say quite that much but I have three independent refiners here to answer your questions.

[Mr. Dryer's full statement follows:]

STATEMENT OF INDEPENDENT REFINERS ASSOCIATION OF AMERICA

Mr. Chairman and Members of the Committee:

My name is Edwin Jason Dryer and I appear as General Counsel of the Independent Refiners Association of America. I am accompanied by Mr. O. L. Garretson of Plateau, Inc., Mr. J. H. Pittinger of Apco Oil Corporation, and Mr. Fred S. Victor of National Cooperative Refinery Association. Plateau, Inc. is an independent refining company with a plant at Bloomfield, New Mexico,

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having a capacity of about 5200 barrels per day. Apco Oil Corporation is an independent refining company with plants in Arkansas City, Kansas, and Cyril, Oklahoma, having a combined capacity of about 37,000 barrels per day. The National Cooperative Refinery Association is an independent refining company with a refinery at McPherson, Kansas, having a capacity of about 52,000 barrels per day. It is owned by, and represents in oil refining, a number of farm cooperatives and the interests of some 2,000,000 farmers.

We have previously presented to the Senate Interior Committee a summary of the special problems which independent refiners face in 1973 in obtaining sufficient crude oil to run their plants. We pointed to the absurdity of the situation in which existing refining plants, most of them right in the middle of oil country, are running below capacity while the nation faces the spectre of fuel oil and gasoline shortages. We presented to the Senate Interior Committee in mid-March a specific survey, identifying 47 independent refining companies which were operating below capacity and the extent of their crude insufficiency. We then outlined to that Committee and to oil policy officials of the Administration certain steps which could be taken to alleviate this situation. We mention these things by way of cross-reference, since we will not duplicate that testimony here today.

Instead, we will address ourselves to Item 6 in the Committee's agenda, namely, the effects of the recently announced replacement of the quota system with a license fee system. The thrust of our testimony will be that the new program has suddenly, needlessly, arbitrarily, and wholly unfairly destroyed most of the import ticket values which have been for many years essential to the independent refiner's survival. One immediate effect of that loss in ticket value is that the incentive or leverage whereby independents could exchange tickets for domestic oil for their refining plants, has now disappeared and the supply of critically needed gasoline and fuel oil from these independent plants will be reduced accordingly. We shall point out that these results need not occur—even within the new import program. Measures can be taken which will restore the independent refiner's ticket values and restore his ability to obtain and process domestic crude oil. We have several specific recommendations as to measures which will accomplish this result.

TWO ASPECTS OF IMPORT TICKET VALUES

At the outset we should emphasize that there are two important aspects of import ticket value. One is the inherent foreign-versus-domestic price differential value. When foreign oil was priced below domestic oil, the right to import a barrel of oil was obviously worth the amount of this difference. It is true that this differential has narrowed and in some instances disappeared in recent time. But there is another and very important aspect of ticket value which exists even if foreign oil costs the same or more than domestic oil: as long as there is some limit on imports, whether by quota, or fee or otherwise, refiners using foreign oil will be willing to pay, within reasonable limits, to obtain the right to import. This minimum, basic value for import tickets in 1973 was not fully determined because exchanges for licenses held by Iniand, independent refiners in the first three months of the year were relatively few, handicapped by uncertainty as to pending changes in the import program. But an inherent minimum value of 40¢ per barrel or greater was suggested in such transactions and discussions as did take place.[1]

IMPORTANCE OF THESE TICKET VALUES TO INDEPENDENT REFINERS

For 14 years these import ticket values have been essential to the survival of most independent refiners. Import ticket values assigned on the basis of a sliding scale preference have played an important role in correcting competitive imbalances and providing oil to independent refining plants. We have explained the factors here involved at other times. Here it should suffice to show concretely the net result in terms of the role of import ticket values for a typical independent refining company. In 1972, a typical, small, independent refining

[1] Such a minimum value for an import ticket is further indicated by the readiness with which the oil policy administrators were prepared, until the last minute, to impose a 42¢ per barrel fee on crude oil imports. No one has suggested that a 42¢ per barrel fee would discourage or handicap refiners using foreign oil.

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company (and the figures are obtained from one actual independent refining company) with inputs slightly over 10,000 barrels per day had an import allocation in the amount of about 1,100,00 barrels which it was able to exchange for crude oil and exchange differential values of approximately $1,000,000. After giving effect to this $1,000,000 in ticket value, the net profit on refining and marketing for his company would normally have been about $500,000 (but for special reasons not relevant here the actual profit was *less* than that in that year). Thus the elimination of ticket values would convert a normal $500,000 profit to a $500,000 loss.

One may ask—wasn't this company aware of this fact and its implications? The answer is yes, but this typical company's officers and directors and stockholders *and bankers* had to move forward on the only tenable assumption, and implicit representation, as to sound government policy and fair play, namely, that any changes in the government's import program, which could affect such fundamental values, would be decided upon only in the most deliberate manner and if undertaken, would be effected gradually over a period of time with adequate opportunity for transition. But this assumption as to sound policy and fair play was betrayed on April 18, 1973.

THE SUDDEN AND DRASTIC CHANGE IN GOVERNMENTAL COURSE

On April 18, 1973, the President announced a totally new oil import program which had the immediate effect of reducing ticket values to a maximum of 10½¢ per barrel for crude oil. He did this by setting a fee for crude oil at 10½¢ per barrel, upon the payment of which anyone may now obtain unlimited licenses to import crude oil. Ticket values for independent refiners, which inhered in the government's oil import program for 14 years, were, in large measure, wiped out overnight.

THIS ACTION WAS NEEDLESS, ARBITRARY AND WHOLLY UNFAIR

At the outset we characterized the Administration's action as needless, arbitrary and wholly unfair. Let us explain why.

This action was unnecessary. Obviously, the lower the fee, the less incentive for domestic oil exploration and development, which is one important national goal. The very low fee of 10½¢, merely equal to the preexisting tariff which was at the same time eliminated, would not serve that goal. Nor was a low fee necessary to accomplish other governmental objectives such as those related to the anti-inflation program. This is because ticket values substantially higher than a 42¢ fee, which was initially under consideration, have been for years a part of refining economics and costs and their *continuation* cannot be deemed a new and additional cost element; indeed at 42¢ they would represent a lesser cost element than in the past. If the Administration was concerned about the rising cost of foreign oil due to price hikes by foreign governments, that problem should have been faced directly and dealt with by other means rather than endangering the whole independent segment of this industry, especially at this time and especially in view of the importance of the independent, long-term, to the interests of the consumer.

We say that this action was wholly unfair. We believe this action was wholly unfair because, at the very same time that ticket values for independent refiners were drastically reduced, substantial import benefits were granted to a select group of international major oil companies. Fee-exempt licenses for 2,900,000 barrels per day of residual fuel oil imports are now authorized, and the preexisting tariff of 5½¢ has been suspended. This provides an immediate windfall, newly found money compared with the immediate past, of $55,571,250 per year (2,900,000 b/d × .0525 × 365). But that is only the beginning! The fee applicable to residual fuel oil is 15¢ per barrel so that the value of these fee-exempt 2,900,000 barrels per day is really about $165,000,000 per year. Absent the independent refiner's competition, and sheltered from all other competition by the 15¢ fee which others must pay, can one really expect that these savings will be passed on to consumers?

In assessing fairness, it is pertinent to note that these are the same companies who have led the export of our refining capacity in recent years. These are the same companies who have enjoyed unlimited access to U.S. markets for their foreign residual while crude oil to make such residual in U.S. plants has been restricted. Yet, while independent refiner ticket values were being destroyed, these companies were handed a windfall.

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We also say this action was arbitrary. We say that this action was arbitrary because the drastic reduction from a proposed fee of 42¢ to 10½¢ was effected at the very last minute and without further consultation with those directly affected. It was at variance with all prior discussion on the subject. We also say this action was arbitrary because it represented a most serious change in a major governmental policy on which substantial businesses had necessarily come to rely, and no significant or realistic transition period was provided.

At this time we should emphasize one most important point: when we characterize the action of April 18th as we have, we do not intend to suggest any prejudice or animus on the part of the oil policy makers. Rather to the contrary, we note with appreciation the several official statements at the time of the Proclamation and since, that it is very much intended to protect the independent segment of this industry. We believe these officials are sincere and we trust accordingly that they will recognize wherein they may have been mistaken or misled, and take corrective action.

We may mention three basic and mistaken assumptions:

First, the assumption that the independents had already lost all their ticket values and a 10½¢ fee would actually serve to improve rather than impair ticket values. While ticket values had admittedly declined, they had not hit the low figures now prescribed. As we described above, there has always been, and there always would be, some minimum ticket value in any quantitative system of import control and this value was in the order of 40¢ or better. Significantly, a fee system of import control can *establish* ticket values. But instead of establishing a fair value or confirming prior values, the new system has cut ticket values to 10½¢ or less.

Second, the assumption that a 10½¢ fee, rising to 21¢, and coupled with a 7 year phase-out of fee-exempt licenses constitutes a reasonable method of transition to the government's new approach. It is transition, yes, but altogether unrealistic having regard for prior ticket values and the impact of the present drastic cut upon independent refiners. As a minimum, if the fee is going to *rise* in two years to 21¢, why not now?

Third, the assumption that the independent refiners' and marketers' problems can be alleviated through new and special guidelines and procedures for the issuance of fee-exempt tickets by the Oil Import Appeals Board. The trouble with this assumption is that the Board's only tool is the issuance of fee-exempt licenses. By destroying most of the value in fee-exempt tickets, the Administration has destroyed most of the help which OIAB can give. Or is it contemplated that the Board will issue vast quantities of tickets—for example, far in excess of a refiner's crude oil capacity—just to compensate for the devaluation of the commodity in which it deals?

This third assumption would also prove in error and illusory if the Oil Import Appeals Board continues to apply its former strict standards of exceptional hardship. We had hoped, and the Administration has suggested, that OIAB might be a vehicle by which crude-deficit refiners could get needed oil, and thus fulfill their refining potential, without need to show that they were on the verge of bankruptcy. But the OIAB guidelines just published on May 2nd, coupled with their initial interpretation to us by the Board, raise serious doubts as to whehter the Administration really intends to provide oil, via OIAB, to crude-deficit independent refiners; an OIAB award is *precluded* if a petitioner's "total oil operations" are not yet in the red. Clearly this must be corrected.

EFFECTS UPON PRODUCT SHORTAGES AND THE CONSUMER

The harm which the new program will impose upon the independent refiner will in turn directly affect our present shortages of gasoline and fuel oils and the long-term interests of the consumer. With ticket values substantially destroyed, independent refiners have no leverage with which to obtain domestic crude oil by exchange with major oil companies and they will continue to operate well below their potential capacity. According to our survey of the situation in March, this represents more than 300,000 barrels a day of idle capacity,[2] much of it in the midst of oil country.

In the long run, if the independent refiner is gone what will be the price of petroleum products to the consumer?

[2] In Districts I–IV; more in District V.

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THERE ARE REMEDIES AVAILABLE WITHIN THE TWO-TIER SYSTEM

There is a way out, however. There are measures which can be taken wholly within, and entirely consistent with, the new two tier, fee and fee-exempt, license system. We have submitted to the Administration our recommendations as to specific measures which should be taken, and taken now. A copy of our recommendations is attached to this statement and we ask that it be included as a part hereof.

* * *

In summary, let us point again to the idle refining capacity in independents' hands—while we face potential shortages of petroleum products. Our recommendations will place that capacity into operation, so we can produce the additional gasoline and fuel oil we need and preserve the independent refiner as a competitive force.

INDEPENDENT REFINERS ASSOCIATION OF AMERICA—IMMEDIATE RECOMMENDATIONS ON NEW IMPORT PROGRAM

We urge that the following steps be taken by the Administration immediately to moderate the needless, arbitrary and wholly unfair reduction in independent refiner ticket values now mandated by the new import program. These steps can be taken wholly within, and entirely consistent with, the new two-tier, fee and fee-exempt, license system.

1. The Fees Under the New System Should Be Increased and Increased Immediately, to 42¢ for Offshore Crude and Unfinished Oils and 84¢ for Products

The most serious defect in the new system of import controls is the last-minute setting of the fee for crude and unfinished oils at 10½¢ per barrel, as compared with 42¢ per barrel which had been under consideration in the several weeks prior to the Proclamation of April 18th. (There was a corresponding reduction in the fee for finished products from 84¢ to 52¢ with a corresponding adverse impact upon the value of tickets for finished products.)

The Administration has expressly said that the "license fees will be reassessed from time to time to assure that the primary objectives of the program are being met." We submit that the time for such reassessment is *now* and the new figures, at which the fees should be set, for offshore[1] crude and unfinished oil and finished products, are the figures which were under general consideration prior to the aforementioned hasty, last-minute change: 42¢ for crude and unfinished oils; 84¢ for products. In support of this recommendation we point out:

a. This is necessary to restore ticket values to the point required to moderate the adverse impact of a sudden change in long-term government policy affecting financial fundamentals of the independent refining industry.[2]

b. This is necessary to provide sufficient "leverage" for the obtaining of crude oil and finished products by independent refiners and marketers. The Administration knows that crude and product shortages already plague the independents more than the majors. Such leverage will help to solve this problem.

c. This is necessary, in terms of fairness, to offset in part the monumental windfall which a few major companies will enjoy in being able to provide

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[1] Ticket values have existed primarily in *offshore* imports so it is these imports to which our present comments are addressed. As the new Proclamation notes, the fees for imports from Canada and Mexico may be subject to special considerations as to which the State Department is to advise the Oil Policy Committee.

[2] Substantial ticket values have been an inherent and basic part of the quantitative system of import controls since their inception. They have been a fundamental financial assumption in refinery planning. Significantly, they exist in any system, quota or fee, of controls *even if foreign oil costs the same or more than domestic oil.* But they have been almost wiped out overnight by permitting unlimited imports for the nominal fee of 10½¢ per barrel. This was done with no advance notice; with no transition period; with no regard for actual impact upon independent refiners' finances—just a sudden, unexpected and drastic change of governmental course which will destroy most independents.

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2,900,000 barrels per day of residual fuel oil now completely free of import duty and also exempt from the new license fee for residual of 15¢ per barrel.[3]

d. No vested interests in the existing fee schedule have been created inasmuch as there has been a clear and specific statement that fees would be reassessed—although licenses already issued on a fee-paid basis would have to be honored.

e. There will be no significant adverse inflationary impact resulting from the restoration of these ticket values; ticket values substantially higher than the fees here sought have been for years a part of refining economics and costs. Furthermore, the higher fees will, in the first few years, not actually be added to the cost of much foreign oil. Nor will a *lower* fee reduce the cost of much foreign oil. This is because most imports initially will be covered by fee-exempt licenses and the fee will merely establish the value of fee-exempt licenses and effectuate the same type of cost transfers *within the industry* which were previously accomplished by the quota system.

f. A partial increase in these fees (to 21¢ for crude oil) is already established within the new program, except that it will occur over a two-year period. Our recommendation is merely that the increase be accelerated in time and made somewhat, but reasonably, larger in amount. *At the very minimum, the ultimate crude oil fee of 21¢ should be made effective now.* What possible objective is served at 10½¢ for two years—except the ruin of the independent refiner and a hoax upon the consumer (since, as noted, the fee will merely redistribute, *not* add to or reduce feedstock costs in this period)?

2. Increase the Quantity of Offshore Fee-Exempt Licenses for Independent Refiners

The Administration can, without increasing the total quantity of fee-exempt licenses, increase relatively the quantity of offshore fee-exempt imports available to independents. This can be done by further use of the sliding scale concept to increase the quantities of fee-exempt licenses in each of the lower quota brackets of the sliding scale (brackets up to 100,000 barrels per day in Districts I–IV and to 30,000 barrels per day in District V). To the extent that ticket *values* are permitted to be any less than in the past, an increase in ticket *quantities* is a necessary offset.

Our recommendation would increase the quantities to independents without increasing the total of fee-exempt licenses. Under our recommendation all refiners, both large and small, would share in the increase in fee-exempt licenses based upon inputs up to 100,000 barrels per day,[4] with such increases then offset by reductions in the quota bracket above 100,000 barrels per day. This is a reasonable approach, having regard for the fact that two-thirds of all existing refiner licenses in Districts I–IV, which will now be fee-exempt, are in the hands of only twenty of the largest companies.

The figure of 100,000 barrels per day does *not* represent a dividing line between the majors and the independents; some independents are above that figure but they also will receive a substantial benefit because of the increase attributable to their inputs up to 100,000 b/d (in Districts I–IV).

3. Ratable Use Requirement for Fee-Exempt Licenses

There should be imposed immediately a requirement that no holder of a fee-exempt license for crude and unfinished oils can use his fee-exempt licenses to cover imports for his own use at a rate greater than 30% per calendar quarter. This would impose no significant burden on coastal refiners (whose own fee-exempt tickets will be insufficient for their total feedstock needs for the full year) but it will encourage the prompt exchange of inland refiners' fee-exempt tickets and the release of domestic oil to these crude-deficit inland plants. It will encourage the prompt realization of whatever value the fee system allows to fee-exempt tickets—whereas otherwise realization of such value by the inland independents will be deferred to the year-end.

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[3] These are the same companies who have led the export of our refining capacity. These are the same companies who have enjoyed unlimited access to U. S. markets for their foreign residual while crude oil to make such residual in U. S. plants was restricted. And now they are given a large windfall which, absent the independent refiner's competition and sheltered from all other competition by the 15¢ fee which others must pay, they may or may not pass on to the consumer.

[4] Districts I–IV; 30,000 b/d in District V.

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4. Machinery to Postpone Issuance of Fee-Paid Licenses While Fee-Exempt Licenses Are Outstanding in Independent Refiners' Hands

In order to encourage realization of whatever value there may be in fee-exempt licenses, it should be government policy to postpone the issuance of fee-paid licenses while fee-exempt licenses are unused in independents' hands. This policy should be implemented by specific machinery within the Office of Oil and Gas—a clearinghouse where independent refiners can report their unused tickets and something can be done to see that the value of those tickets is realized before a fee-paid license is issued to an applicant therefor. At this stage, it may not be possible to provide an increase in actual crude oil to the inland plant but the value of the fee-exempt ticket should, as a minimum, be made available by this means.

5. The Machinery of, and Standards Followed by, the Oil Import Appeals Board Should Be Strengthened

The Oil Import Appeals Board has been assigned primary responsibility, under the guidance of the Oil Policy Committee Chairman, to alleviate independent refiner and marketer problems, with specific reference not only to traditional cases of financial hardship but also to the need "to assure that adequate supplies are available." This is constructive, but unfortunately the very first steps taken under the new program appear to fall far short of the auspicious objectives expressed by Administration officials. We refer to the OIAB guidelines published May 2nd, which require that the petitioner, to qualify for an award, "must demonstrate that its total oil operations are not producing a reasonable profit . . ." If applied literally and unless moderated by interpretation of other guidelines, this would mean that an efficient and profitable independent refiner lacking sufficient crude oil must continue to operate below potential capacity! Is this sound policy in a time of product shortage? We believe crude insufficiency by itself, regardless of individual company profitability, should qualify for OIAB awards to refiners.

IRAA RECOMMENDATIONS FOR ACTION OUTSIDE THE IMPORT PROGRAM

In addition to the foregoing steps which need to be taken within the new import program, additional measures outside the import program are needed to insure full utilization of our refining capacity. Insofar as these measures do not fall within the specific province of the Oil Policy Committee (dealing with oil imports), they should be dealt with by the recently established National Energy Office and the Special Committee on Energy. We especially urge the following.

6. Immediate Removal of Price Control on Crude Oil and Products

One of the most severe barriers to independent refiners getting domestic oil from the major companies, who own and control it is the Phase III restrictions on price increases by the largest oil companies. The majors have, obviously, no incentive to sell crude oil to an independent refiner if by law they cannot charge as much as the foreign oil costs, to replace domestic oil released by them, or as much as they can realize by processing such oil in their own refining plants. Removal of price restrictions would remove this severe barrier.

[This factor is an additional reason for increasing the fee on imported crude oil from 10½¢ to 42¢. A higher value for fee-exempt licenses will give independent refiners "trading stock" (not restricted by Phase III) which will be on value and interest to their major company exchange partners during Phase III and beyond.]

7. Allocation of Crude Oil

To the extent that the foregoing measures are not adopted, or fall short of accomplishing their objective, then we believe the Administration should take necessary action to allocate crude oil to insure supply to all crude-deficit refining plants. This will require, of course, administrative machinery and a carefully drawn plan because of the complexity of the problem and the need to minimize inequity. The complexity of the problem is not, however, a reason to avoid the issue, but rather an affirmative reason for preparing plans *as soon as possible* to take this action, when and if it is necessary.

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Such a distribution of crude oil to fill existing refining plants can be accomplished, as evidenced by the fact that it has been accomplished in the past through the normal interplay of market forces—when there were sufficient incentives. Our preceding recommendations are intended, indeed, to bolster such incentives and thus utilize market forces to accomplish that result. To the extent these recommendations are not adoped or realized, then government, by affirmative allocation as a substitute therefore, must act to accomplish this same result. With the Eagleton amendment to the Economic Stabilization Act Amendments of 1973, the Administration now has the necessary authority and it would be remiss if it does not plan to use it when necessary.

8. Federal Leadership in Temporary Relation of Clean Air Standards and Related Matters

Federal and state action to relax clean air standards temporarily is necessary so that fuels, with specifications which can be produced by existing plants, can be produced and used. We point out that the federal responsibility in this area goes beyond federal rules alone; it should include affirmative respresentations to state and municipal agencies of the need for a temporary relaxation of stringent air quality and fuel standards in the overall national interest. Excessive restrictions impinge with special impact upon the potential production of independent refining plants.

There are other areas where federal regulatory leadership is needed. It does not make sense, for example, for regulatory bodies to *encourage* the use of scarce fuel oil for utility use (by an immediate passthrough of whatever higher costs are incurred to buy clean fuel) while extra costs spent to clean up coal (new capital costs) are at best recovered only over a period of years and after overcoming regulatory barriers and delays.

The foregoing measures will help to move oil into independent refining plants now needlessly under-utilized, and to preserve the competitive role of the independent refiner.

Senator McINTYRE. We will send that over and ask them to respond. You say all these corrective measures are set forth?

Mr. DRYER. Yes, sir.

Senator McINTYRE. We will say, "Look, we have some refining capacity unutilized, and here are eight reasons in which we think they can be utilized. Would you please justify some of the things that you have done?"

Mr. DRYER. One of them can be directly corrected by a letter overnight.

Three of them can be taken care of by a regulation. You do not have to go to the President for a new proclamation. They would have to go to the President to reset the fee scale.

But they have always said they will reassess the fees from time to time. That would be nothing new.

Senator McINTYRE. It seems to me that the Federal Oil officials rather than increasing traiffs, could implement procedures requiring the orderly exchange of tariff tickets to independent refiners for domestic crude with the major oil companies.

A program could be worked out, for instance, where, if it were shown that major oil companies were refusing to exchange quota tickets for domestic crude oil that their own right to import foreign crude oil could be reduced.

Would not this type of program help you?

Mr. DRYER. Something along that line is covered by item 4 in our list of recommended actions, a machinery to postpone the issuance of fee-paid licenses while the fee-exempt licenses which we have are still outstanding. We suggest a clearinghouse be set up in the office of Oil and Gas so that an independent refiner who had not been able

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to exchange his tickets could report that to the office of Oil and Gas and they would say to any applicant for a fee-paid license, "Wait a minute, this license is out there, why don't you pick it up first?"

Senator McIntyre. Why would you say that an enormous increase in tariff fees will end up helping the consumer?

Mr. Dryer. For two reasons. First of all, the increase in fee will have no perceptible effect in 1973 and very little effect in 1974 because, as I have outlined earlier, there are fee-exempt licenses outstanding in 1973 for the probable total volume of imports.

They are held by coastal refiners and they are held by independent refiners .The only function of the fee in this period is to set the value which an independent refiner might be able to obtain for his fee-exempt ticket from a major oil company and that will not increase the consumer cost because that is a transfer of costs between refining companies and does not add to the aggregate of fee-stock costs for all refining companies.

What they have done now is to effect a transfer back from the independent refiner to the major oil company of the amount that the major in the past has paid to the independent for the independent's ticket.

No, beginning 2 years from now, the program already contemplates a fee of 21 cents. We say start it at 42. If you are going to reduce it at all, reduce it 2 years from now to the 21 cents, so at the time that the fee actually becomes a charge and cost to the refining industry—they have plugged it at 21 cents.

Senator McIntyre. Another alternative would be to establish a small business set-aside program on domestic crude oil for independent refiners. The Small Business Act provides for this type of procedure and why couldn't it be implemented for the independent refiner?

Mr. Dryer. For two reasons.

First, the Small Business Act and the Small Business Administration's definition of small business in the refining industry does not coincide with the group now known as refiners, independent refiners. The independent refiner is defined, if you will, by his lacking crude oil of his own to any significant degree. This includes refiners up to—well, for instance, we have two of them here today that are over 30,000 barrels a day in capacity— Mr. Pittinger with two plants at 37,000 barrels a day, Mr. Victor with one plant owned by the Farm Cooperatives with 52,000 barrels a day.

Neither of these companies qualifies under the definition of the Small Business Administration as small business.

A small business definition may be appropriate for giving to a select number of companies, very small, the special benefits of that act but the independent refiner class, as a whole, is larger than the group of companies that are under 30,000 barrels a day. Moreover, the larger independents are the ones who most effectively in creating competition and in actually bringing to bear in the marketplace the advantages of the independent.

The smaller companies play their role, but almost by definition, a larger independent can be more influential in the marketplace.

Senator McIntyre. How many independent refineries have come into existence in one way or another in the last 5 years, have either

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been built or found themselves independent because they had no crude?

Mr. DRYER. I would be glad to supply that for the record. I have an offhand feeling that there are probably a half dozen which have come into existence by reason of acquiring some plant abandoned by a major oil company.

That would be the prime way by which new independents have come into existence.

Of course, there have been changes within the corporation or the corporate ownership and organization of companies. Perhaps some of my independent refiners may have more to say on that subject.

Mr. PITTINGER. I think the answer is right.

Senator MCINTYRE. How many have disappeared, independent refiners?

Mr. DRYER. In the last decade we have been holding the line pretty well with only a few disappearing from year to year.

In the decade before that the number of independents just declined from about 220 to about 100 independent companies as such. We attribute a substantial cause for the survival of the independent, the fair exchange that the independent has gotten under the oil import program.

Senator MCINTYRE. Would it be very costly or would it be of some value at all to take an independent refinery and try to add to it or do whatever is necessary so it could handle the higher sulfur-content crude oil? Is that worthy of any consideration by you who own it, or is that just an added investment at a time when you are worried about the investment that you already have?

Mr. VICTOR. That is a big problem that we are all faced with in trying to decide how to get additional crude for our refineries. We do not have the answer. Somebody is going to have to take the sulfur out of the oil. Whether it is going to be taken out overseas before it is brought over or whether it is going to be done here on the gulf coast before a pipeline is built to bring offshore oil into the mid-continent-Oklahoma-Kansas area or not, we do not know.

The other alternative is to actually run sour crude at your refinery, which is another economic consideration. One of the problems in trying to look at all alternatives is what kind of security of supply you have. We would like to increase our refinery capacity right now if we knew where we could get the oil. So, we do not have the answer to your question as to what the economics are to get this set up to run 10,000 barrels a day of sour crude when we have been running 50,000 barrels a day of sweet crude. These are things to look at.

We are all looking at them carefully but we do not know.

Senator MCINTYRE. Tell me—do you think this new allocation program that has been announced today is going to help?

Mr. VICTOR. I think it has got some possibilities. We think that our suggestions that we have presented here today have a lot of merit, and I think one of the questions that you had, Senator, and you may want to check on it, yourself, as far as the actual volume of import tickets that have been issued already for 1973 that are free-exempt, how that number of total tickets compares with what they think will be imported this year. We think that it is about as

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much as they will get imported and, therefore, this recommended figure of 42 cents a barrel which we are talking about, would be on a small percentage of the total imports if all the fee-exempt tickets were used up first. But it would give us the bargaining power to get the major to trade with us.

One of the big problems is trading sour imported crude for sweet domestic crude. There is a differential in value. If we had 42 cents to start with on our ticket values, we would be able to give up some or all of that in order to get the sweetcrude that we need.

But at 10.5 cents, we do not have enough to talk about. They will just say we will go and get additional tickets, you know, we do not need your tickets. This is our whole point.

Senator McIntyre. As a representative of a consuming area, we do not care much for those tickets. We will bring those suggestions to the attention of Mr. Simon. Actually, as one who has represented a consuming area of the country and has been quite confounded by the mandatory oil import policy and has really run up against a stone wall in trying to get it changed, I can just say this, the administration, it did not matter down here whether I encountered a Democratic or Republican administration, that mandatory import quota policy was there and that is all it was.

Certainly all of us who have been talking with the Secretary and with his associations seem to find a real desire to try to help, not only the consumer, the small independent, but the independent refinery and all segments of the business.

Now, in the past it seemed to me they were only concerned about the major oil companies. I know that is a biased opinion that I hold. I am entitled to have my bias the same as you are.

I want to thank you gentlemen for being patient and waiting for the opportunity to come before the committee. We will take your cause directly to the Secretary.

We will now recess until tomorrow morning at 10 o'clock.

[Whereupon, at 12:30 p.m. the committee adjourned to reconvene at 10 a.m., May 11, 1973.]

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PETROLEUM PRODUCT SHORTAGES

FRIDAY, MAY 11, 1973

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING AND UUBAN AFFAIRS,
Washington, D.C.

The committee was convened at 10 a.m., in room 5302, New Senate Office Building, Senator Thomas J. McIntyre, presiding.

Present: Senators Proxmire and McIntyre.

Senator MCINTYRE. The committee will come to order.

This morning we open our fifth and last day of hearings on the impact of petroleum product shortages on the nation's economy.

We are very happy and delighted to welcome as our first witness this morning the Honorable Stephen A. Wakefield, accompanied by Mr. Duke Ligon, Mr. Wakefield being the Assistant Secretary of the Interior for Energy and Minerals.

If you gentlemen would advance and take your places at the witness table, you may proceed with your statement.

You may proceed, Mr. Secretary. We have your statement. It is short enough so I think the chairman does not need to exercise the usual admonition this morning. All week long I have had to be pushing, we have had so many witnesses here. Some of them have come as far away as Wyoming to testify. But your statement is only seven pages long so we can sit back and relax this morning.

STATEMENT OF STEPHEN A. WAKEFIELD, ASSISTANT SECRETARY OF THE INTERIOR FOR ENERGY AND MINERALS, ACCOMPANIED BY DUKE LIGON, DIRECTOR, OFFICE OF OIL AND GAS

Mr. WAKEFIELD. I tried to summarize it when I was preparing it, Mr. Chairman.

Mr. Chairman, and Senator Proxmire, I am happy to have this opportunity to discuss with the petroleum supply situation in the United States.

With me this morning is Mr. Duke Ligon, who is the U.S. Office of Oil and Gas within the Department of the Interior.

I would like to begin my statement with a synopsis of the total supply situation in 1973 as we see it and go on from there to address the specific questions you requested we cover in this testimony.

First, domestic petroleum supply situation in 1973. We anticipate in 1973 that, without conservation efforts, product shortages probably will occur in some regions of the country, manifest either as gasoline shortages this summer, distillate shortages next winter, or possibly both.

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Our best estimates of supply and demand, however, indicate that the magnitude of the shortages we might experience is not large in the context of the total demand for gasoline and distillates.

If the petroleum industry operates at maximum levels, and at least some effort is made on the part of fuel users to conserve fuels this year, supplies should be sufficient to meet all consumer requirements. On the other hand, if demands continue to increase rapidly, if there is no effort made to practice fuel conservation, if we experience some severe weather or other unusual occurrences and if refiners are unable to operate at anticipated rates, then we could have a shortage of 2 to 5 percent of demand.

Given the operations of the industry over the first quarter of the year, our predictions from this point on show that if maximum feasible operations are attained, demands for gasoline and distillates can be met without stocks of product falling to unworkable levels. However, there is little flexibility to respond to any occurrence out of the ordinary. In a situation this closely balanced, any disruption in the normal system of supply will show up as a shortage of product. Because of the nature of the industry supply system, which we will discuss in more detail later, the most likely area to experience supply difficulties or shortages is the Midwestern United States. There will, at the same time, be distributors of petroleum products who will be short of supplies while others are not. We have already begun to see evidence of many suppliers, both majors and independents, who are allocating the supplies which they have available.

I would also like to point out that the product supply situation for gasoline is intertwined with that for distillates. We cannot now assure that a shortage will be confined to only one product, or whether supplies of both will be affected.

As the summer progresses and we have the benefit of current information regarding industry operations, we can better assess the likelihood for shortages of distillate this coming winter.

Now, what are the causes of the current situation? Succinctly stated, the demand for petroleum products in the United States is outrunning our capacity to refine crude oil. While the reasons behind the growth both in demand and the lack of growth in refining capacity are many and complex, the unavoidable result is that we are at the limits of domestic refining capacity.

There has been much said about the complex interaction of policies and events which have resulted in the current situation, and I will not recount these here.

What will be the impact of the shortage of the Nation?

I must reiterate that a shortage this year is not certain, but at the same time, probable. We have examined a range of contingencies about our forecasts of supply and demand, and we conclude that a shortage of 4 to 5 percent of demand—about 250,000 to 300,000 barrels per day expressed as gasoline—is perhaps the very worst we might experience. A shortage of 1 to 2 percent is more likely. If a 1 to 2 percent shortage is experienced, we would expect overall that the effect could be classified in terms of an inconvenience to the public.

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As far as inconvenience is concerned as to those who are affected, it might be much more than inconvenient. Freight shipments and delivery of goods would be delayed, motorists would find lines at some retail gasoline outlets and closed signs at others. In this kind of situation which is certainly not desirable, especially for those involved, we would not expect any significant loss to the economy. Certain regions may experience some impact while in other areas the effect might pass all but unnoticed.

However, if the shortage were in the 4 to 5 percent range, which as I mentioned is unlikely but possible, probably some areas of the country would experience problems of a magnitude which could cause economic harm. However, it is impossible to say at what point a shortage might grow from the size of an inconvenience to one of real economic significance.

I would like to emphasize very strongly the impact which even a moderate level of fuel conservation would have on this situation. A demand suppression of 4 or 5 percent is possible with only very minor adjustments in our personal fuel consumption habits. Car pooling, increased use of available public transportation, and other easily implemented measures could erase our concern if the public would expend but a moderate effort to conserve fuel—not only gasoline, but fuel of all types. The encouragement of conservation practices should be of top priority to all of us who communicate with the public in order to minimize or eliminate the threat of shortages.

I should point out here, Mr. Chairman, that if each motorist could save only 1 gallon a week of gasoline, then we would not anticipate any difficulties. But it is going to require public awareness and an effort on the part of the public to do this.

Senator McIntyre. Do you have any plans to get that message out to the public, yourself, at Interior or are you going to ask the majors to do it? They have stated they are going to change their advertising.

Mr. Wakefield. I applaud their efforts in doing this and I have long personally encouraged them to do this. As far as what we intended to do in Interior, this week, Monday, Secretary Morton announced a reorganization which, among other things creates an Office of Energy Conservation. We are moving very rapidly to establish that office, to staff it, and we expect to move very strongly in this area, particularly in the area of public awareness and public information, to get this information out to the consumer, to make him aware of the problem and what they can do to help to alleviate it.

Now, what impact will the shortages have on competition in the industry?

Over the past 5 or 6 years, spare refining capacity in the United States has steadily dwindled. As a result, considerable pressure has been felt by those in the industry who were dependent on wholesale supplies for their business. There might be some companies who will not be able to weather this period of tight supply and who will be forced out of business. There are others, also in the independent sector, who will be able to remain profitable and active.

It is not accurate to imply that the potential shortages this year are the sole cause for some independents' difficulties. The trend of the past several years has been visible, catching the entire industry

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between rising foreign crude prices, dwindling domestic crude supplies and lagging refining capacity. For some, however, this year may prove to be the straw that broke the camel's back.

Many market areas in the country are almost entirely dependent upon independent companies for supply and the loss of these suppliers could cause local shortages. For that reason we are attentive to the situation confronting the independent, and have taken steps in the past and more recently to provide some supplies to these markets. Sliding scale import allocations, exchange provisions, special quotas, expanding the role of the Oil Import Appeals Board and the sale of government-owned royalty crude oil are steps which are being taken in the interest of the independent.

Yesterday Deputy Secretary of the Treasury Simon in his testimony to this committee described a voluntary allocation program that has been developed whereby all suppliers would make available for sale on a State-by-State basis the same percentage of total crude oil and refined products to each class of trade that it received during a base year comprising the last quarter of 1971 and the first 3 quarters of 1972.

Mr. Chairman, Mr. Ligon will outline the steps upon completion of my testimony that we have taken in the Department of the Interior to implement this program announced by Secretary Simon yesterday.

What steps can and should be taken to prevent such shortages and their reoccurrence?

First and foremost we must encourage conservation of fuels. This should not be regarded as solely a program of conservation to avert a short-term shortage, but a serious rethinking of the way we all use —and waste—energy. While short-term measures to mitigate the current problem can be implemented now with minimum inconvenience to the public, longer term and more difficult conservation practices must be encouraged also. We cannot continue to throw away a large portion of our energy supply in inefficient cars, homes and industries and expect to maintain a viable economy into the future.

Secondly, we must provide incentives for domestic energy source development, including petroleum supplies and refining capacity in the short term and alternative energy sources longer term. There is no way for a new import program or a rationing plan or any other short-term action to create a new barrel of oil. The solutions are not that simple, and they involve thoughtful and careful implementation of the President's national energy policy.

Third, we must come to grips with the conflicts in our national priorities—the relative roles of clean environment, economic strengths, national security and adequate energy.

What will be the impact that gasoline shortages will have on home-heating oil supplies next winter?

As I mentioned, all product supplies are basically interrelated. To the extent that maximum gasoline production is maintained through this year at the expense of building adequate stocks of heating oils, then the likelihood of fuel oil shortapes next winter will be yreater. Right now, stocks of heating oils are in good shape relative to previous years and if operations go as forecast through the summer, we can likely expect that we will have adequate supplies for

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next winter. At this point we simply cannot make any firm projections for the reason there are so many variables involved. Even though heating oil supplies, overall, may be adequate, it appears probable that some refiners and some marketers will again encounter serious supply problems which will be reflected in their ability to supply their customers.

What effect will the recently-announced import program have on this year's supplies?

The lifting of quantitative restrictions on imports will make foreign markets more accessible to U.S. companies in securing supplies. The ability of foreign markets to absorb the additional demand is not certain, however. It appears, for example, that foreign product prices will be higher than domestic prices, indicating a general tightness in world supply.

There may be environmental difficulties and sulfur restrictions may limit certain foreign supplies that might otherwise be available to this country.

However, the fact remains that the changes in the import program have at least removed quantitative restrictions on imports, and have suspended duties and fees on most of the oil which will be imported this year. To the extent that extra costs incurred in importing products can be recovered by the importers, we can reasonably expect imports to rise.

For the longer term, it is imperative that we maintain an incentive for investment in domestic capacity. In this connection, Mr. Chairman, I would applaud your efforts in urging New England to consider the need for refining capacity there and pointing out to the members of the congressional delegation from New England that environmental safeguards are now available so that refineries can be built by an environmentally safe method.

Our resources of oil and gas are very large. The difficulty is that they are not being translated into reserves available for immediate use at the rate required to meet our demands.

What is presently lacking is the willingness to make the necessary commitments of capital and manpower to accomplish this task and the restoration of this willingness was one of the main thrusts of the President's energy message of April 18. It will take time for the measures he proposed to become effective but the undeniable truth is that the solution to all our energy problems lies here in our own country—quite literally under our very feet.

At this time, Mr. Chairman, I would like to have Mr. Ligon of the Office of Oil and Gas outline the steps that we have taken in the last 24 hours to implement the new allocation procedure.

Senator McINTYRE. Fine, Mr. Ligon, you may proceed.

Mr. LIGON. Mr. Chairman, since yesterday when Mr. Simon was present and gave you the background for the voluntary allocation plan, we have done several things that might be interesting to you this morning with regard to how we might implement or begin to implement the plan itself.

As I promised you and this committee yesterday, telegrams are being sent to crude oil and refinery products suppliers and producers across the Nation indicating that this new allocation program has

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been announced. Telegrams are being sent to the traditional classifications for oil import licensees which include refiners, petroleum and chemical people, fuel terminal operators and all those eligible to apply for Oil Import Appeals Board licenses which generally include independent marketers, refiners, and independent fuel terminal operators.

Senator McINTYRE. Was that same telegram sent to everyone?

Mr. LIGON. Yes, it was.

Senator McINTYRE. Do you have a copy?

Mr. LIGON. Yes, I do. It is short. I would like to read it to you.

Senator McINTYRE. I would like to include it in the record, too.

Mr. LIGON. Yes, sir. I would be happy to. The telegram reads:

"This is to notify you of the allocation program announced by Mr. W. E. Simon on May 10, 1973, before the Senate Committee on Banking, Housing, and Urban Affairs. The Government has established an allocation program for both crude oil and refined products. The program will rely on voluntary compliance with guidelines set by the government calling for the supply of no less than the proportion of 1971 and 1972 sales to independents and other customers at prices not exceeding posted and rack prices charged by producers, refiners, marketers, distributors, and jobbers. The Office of Oil and Gas will administer the program and will assign to each producer, refiner, marketer, jobber, and distributor allocations for priority customers still unable to obtain needed supplies of crude oil and products not to exceed 10 percent of any supplier's total sales of crude oil and products during the base period. This assignment by the Office of Oil and Gas will be based on demonstrated need.

"Copy of the program as announced by Mr. Simon will be mailed to you shortly. Our purpose is to apportion, as evenly as possible, any curtailment in consumption that will result from gasoline and distillate shortages.

"Priority will be given to meeting the needs of farming, food production, essential industries, State and local governments and other essential categories. The program which is effective immediately will apply to all segments of the industry.

"I solicit your support in this effort which is very essential to our national well being."

It is signed by the Director of Oil and Gas, Mr. Chairman. I will submit it for the record.

We sent this, as I explained, to the traditional classifications for license holders. We have also sent it to the chairman of the regional committees as set up by the Oil Policy Committee in the five regions plus New England. They have agreed to disseminate this information as rapidly as possible to their interested members.

Also we sent the telegram to various trade associations, and today the Washington representatives of all segments of the industry will be encouraged to pick up copies of this telegram in the Office of Oil and Gas.

Mr. Chairman, the telegram is being followed-up by a mailing of more detailed information about the program. This includes a cover letter plus Exhibit A from Mr. Simon's testimony, given yesterday before your committee. The mailing should be completed this afternoon.

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Mr. Chairman, the Office of Oil and Gas will very quickly publish in the Federal Register additional information, clarification and guidelines to facilitate the processing of priority questons and allocation complaints. These guidelines will be published in the Federal Register next week. The staffing of the Office of Oil and Gas Emergency Preparedness Division has now been expanded using the resources that are currently available and this office will initially perform the principal administrative function for this new program.

Currently established office of Emergency Preparedness and Office of Oil and Gas field offices will be utilized together as local information and processing centers across the country in the 10 Federal regions and will answer questions and complaints to the extent possible.

Data and queries will flow from the field office to the Office of Oil and Gas in Washington.

Mr. Trent, Acting Director of the Office of Emergency Preparedness is cooperating to see that this is accomplished. An operation center has been established in Washington to serve as a focal point for the allocation action.

Senator McIntyre. Is this an emergency operation set up similar to that developed by OEP last year?

Mr. Ligon. Yes, sir.

Senator McIntyre. I am glad you have done that. We had testimony yesterday that that was very helpful. Witnesses testified this week that such an office is of great assistance to them. I am glad to hear that. I also want to compliment you for the alacrity with which you have been moving.

Mr. Ligon. We are as concerned as you are with respect to the supply problems particularly and I think all segments of the industry are aware it is a national problem and not a problem of one segment of the industry or another.

Everyone has been very willing to help and cooperate.

One other step, Mr. Chairman, if I may relate to you that was taken yesterday, Mr. Simon and I met with the representatives of the major independent trade associations in Washington and explained the best we could what the guidelines were and what it meant to their clients and so forth, and they will pass that information on immediately as promised.

We are to continue to meet with the various subcommittees that Mr. Simon set up and explain the guidelines to the independent segment of the industry as well as answer any specific questions that they might have as time goes along.

It also can serve as a forum for complaints. That is where we are, Mr. Chairman.

Senator McIntyre. I have got a few questions for you. Mr. Secretary. In discussing the impact of shortages on competition, you state that this year may prove to be "the straw that broke the camel's back."

Are you saying that the allocation program announced yesterday will not meet the goals as outlined by Secretary Simon and that even with this allocation program the independent segment of the industry will still suffer serious economic harm? Before answering this question, I would like to remind you that there are several bills

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pending in the Senate right now that would make the allocation program mandatory rather than voluntary. If the independent segment is still threatened even after yesterday's allocation program, then it might well be that Congress should take additional steps beyond those outlined by the Secretary yesterday.

Mr. WAKEFIELD. No, I think, Mr. Chairman, that the actions outlined by the Secretary yesterday, will take care of this problem and I think the problem that I was referring more to here was an economic one rather than an allocation one. As you well know, many of the independents, particularly marketers, have been able to establish their market by first purchasing the surplus barrel that was refined and then being able to sell it at lower prices than the majors have been able to.

I think the problem here is perhaps more an economic one than an an actual availability one. I am hopeful and I believe that the program announced by Mr. Simon yesterday will take care of the availability problem but of course you can not guarantee the price at which they will be able to purchase the supplies.

Senator MCINTYRE. Mr. Ligon, in Secretary Simon's outline of the allocation program, he stated that the Oil Policy Committee of which he is chairman will begin hearings on the program and determine whether it should not be made mandatory.

Would you agree that while a voluntary program may well do the job, that the Federal Government should proceed at once to establish a mandatory allocation program that could be implemented, if it became clear that the voluntary program was not achieving the desired results?

Mr. LIGON. I do hope and think that the voluntary guidelines will take care and help alleviate the problem in the coming months with regard to gasoline shortage this summer as well as any distillate problem in the fall.

All segments of the industry have indicated their concern and all are willing to help.

Certainly, the voluntary way is the way to go. I am not sure that the Government is capable of trying to achieve more efficient results than the industry in this particular case.

Mr. WAKEFIELD. Mr. Chairman, if I might add to that, the Oil Policy Committee will commence hearings in the very near future in this, and I would expect out of those hearings to come the determination as to whether a mandatory program would be necessary, and if so, what it should be.

Mr. LIGON. As Mr. Simon indicated to you yesterday, Mr. Chairman, he will continually monitor the progress of the program to see if it works or not. He is in constant communications with the independent parts of the industry, as you are well aware. He is quite sincere about finding out whether or not it is working and as Secretary Wakefield has indicated, hearings from the Oil Policy Committee will start right away to determine that.

Senator MCINTYRE. Senator Proxmire?

Senator PROXMIRE. Mr. Ligon, I want to make sure I understand how this program will work. As I understand it, you take the last quarter of 1972 and the first quarter of 1973—no?

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Mr. LIGON. No, sir, it is the last quarter of 1971 and the first three quarters of 1972.

Senator PROXMIRE. You take the last quarter of 1971 and the first three quatrers of 1972, and then you allocate the available supply, based on that distribution at that time, so you see that gasoline dealers, the fellows who fill up your car with gasoline when you pull into the station are going to get the same supply they got then in proportion to the available overall supply, is that right?

Mr. LIGON. Right. We had questions this morning on this very thing, Senator Proxmire, and this does not apply any more to major companies than it does to any other refineries.

It applies equally across the board to all refiners, producers, jobbers and distributors in the country.

Senator PROXMIRE. I have run into a number of people in my State who have complained about this and I am sure Tom has in his State. He has done a marvelous job in making this much fairer allocation of gasoline possible and deserves a great deal of credit. Suppose these people feel they are not getting their supply, what can they do about it? What is their recourse?

Mr. LIGON. The recourses, Senator Proxmire, are to contact the OEP or Office of Oil and Gas field office or contact our office directly in Washington and explain what the problem is and we will quickly hold a hearing to determine why they cannot get that supply and what we can do to get for them.

Senator PROXMIRE. Would you be able to act—I am all for hearings, I believe in them very strongly; I have argued for them consistently—but I would think you might get many hundreds of requests if this shortage becomes great, and the filling stations are not getting their supply, so would you be able to short-circuit that to some extent?

Mr. LIGON. Yes, we could.

Senator PROXMIRE. Could you direct that this be handled quickly and fairly?

Mr. LIGON. Yes; we can, Senator Proxmire, and we anticipate that what we will try to do quickly is to bring to the attention of historical suppliers this particular situation and hopefully we will not have to have the hearing initially. I was trying to explain as we went on down the road if we were unable to secure adequate supplies for the people that you are talking about and if the suppliers are just not able to do it for one reason or another, hearings then would be held.

Senator PROXMIRE. The testimony that we have had prior to today has been, as I understand it, that the shortages are likely to get worse as the years go on, that is, it will be worse in 1975 and 1976 and so forth. Under these circumstances, do we have any long-range approach to this kind of problem? It seems to me the President's resource message was helpful and maybe that will solve the problem 5 or 10 or 15 years from now, but I think you will agree it will take a long time.

Meanwhile, what do we do? This kind of approach or change in advertising or exhortation to consumers to use carpools or to run instead of drive, walk instead of drive, are unlikely to be very effective. I wondered if you have any standby rationing for the motorist,

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for the consumer, any study of this, any notion the time at which this might be considered seriously and be put into effect, like in World War II where you got stamps and the stamps varied depending on whether you needed to get to work or for pleasure?

Mr. WAKEFIELD. Senator, there has been consideration given to this problem. We do not believe that it will be necessary for this summer. It is difficult to project whether it might be next summer or the year after that. I think in every consideration that has been given, this was considered to be the absolute least desirable, the last step that would have to be made.

Of course, there is the possibility as we get down the line that this might be required and, as you pointed out, as far as the President's energy message was concerned toward getting adequate domestic supplies, it is not something that is going to turn the situation around in 2 or 3 years .

Senator PROXMIRE. It might not turn the situation around. I hope it does. We have had I think a demonstration of the ineffectiveness of trying to secure more effective proven oil reserves, effective exploration by tax expenditures than almost any policy I can think of. You have the oil depletion allowance, you have intangible drilling, you have a whole series of incentives, and they have not worked.

Now, the President seems to be calling to some extent for more of the same. I have seen proposals that I am assured by some people would be about one-tenth as expensive as these tax advantages, to wit direct subsidy for exploration.

The argument is then the Congress and the taxpayer could see how it is working and the argument that I have seen is that this might be a far more effective approach. Has any consideration been given to that kind of an approach?

Mr. WAKEFIELD. There has been some consideration. I would like to respond first to your first point that evidences these and they have not worked. I think the difficulty in the past has been that we have had many conflicting policies within the Government.

For example, while we had these policies to encourage the producer, we had policies on the other hand to hold down the price of natural gas and discourage the producer.

In the past we have not made adequate availability of our public lands, particularly in the Outer Continental Shelf, and we are trying to change these things now, but it is going to take a whole series of things. I think just in the economic area, that is one important step that has to be taken, but there are many other considerations to be taken, also.

Senator PROXMIRE. It seems to me, if you are going to let the price of natural gas go up, then the next step—the perfectly logical economic step is to let the price of gasoline go up.

That will have several effects. It will have the effect of encouraging exploration, encouraging development of the supplies and it would have the discouraging effect of using it. That is the way we solve our economic problems in this country.

This has a very, very serious social effect which concerns me very much, too, it means that people have to pay more for their gasoline. It means you discriminate against the people who have the lowest

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income. It means probably a very substantial enrichment of the oil companies.

I think, on both scores, that is very hard to accept. Therefore, it seems to me that some kind of a tradeoff—if we are going to permit this kind of increase in natural gas prices and perhaps gasoline prices and fuel oil prices, then we ought to insist that we sharply curtail or terminate the tax advantages which amount to billions of dollar and are viewed by many people as the biggest loopholes we have in the Internal Revenue Code.

Mr. WAKEFIELD. I agree with much of what you say. As far as the depletion allowance is concerned, I would say that is more in the bailiwick of the Treasury than it is in ours.

I think the simple fact is, if the depletion allowance were removed, prices would have to go up or there would be decreasing amounts of exploration and development. Maybe the prices should go up. Maybe that is the answer. I do not consider myself an expert in the tax field.

Senator PROXMIRE. I hope you gentlemen begin to think about this overall possibility. We have been told by all the experts that the oil shortage is going to get worse. These short-term approaches just are not going to work.

Mr. WAKEFIELD. I agree with you totally, Senator Proxmire, and I hope that the steps that we are required to take in the short-term are not counter-productive to the things that we need to be doing in the longer-range to assure the country of available supplies of energy.

Senator PROXMIRE. There will be a terrific battle in Congress and a great bitterness in the public if you let the prices go up without having some kind of quid pro quo on the tax concessions. I think this is something that the industry ought to think about and I hope you fellows think about it, too.

Speaking of the future a little bit, you talk about next winter and you say you think we may have a reasonable balance of supply and demand for fuel oil, but it may be worse than last winter.

Last winter we were blessed with a very mild winter. And yes, in Wisconsin I saw a number of business places that had to be curtailed and some homeowners were concerned about it, fortunately they did not have their oil curtailed, but they were on the brink of it. What are we planning to do about that? Do we have any kind of standby, a standby system of assuring that supplies will be available?

Mr. WAKEFIELD. I would assume that this same allocation program that we have outlined here would continue into the distillate situation.

Senator PROXMIRE. That standby situation only applies to the dealers. It does not apply to the users. I am talking about the possibility if the situation becomes sufficiently bad to make sure that the homes at least would be heated.

Maybe you would have to curtail the churches or the schools or something of that kind.

Mr. WAKEFIELD. As we move into the situation, I am sure we will be looking into this.

In so far as that situation is concerned, our inventories for distillates right now are higher than they normally are. We do not have the import restrictions we have had in the past. I am hesitant to be too sanguine about what the situation may be, particularly for

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environmental reasons much of this distillate is now being consumed by electric utilities. Certainly if we see the situation worsening, then we are going to have to move into a position of looking at what the priorities of use should be.

Senator PROXMIRE. I hope you will be able to do that in a timely way. We will not have to wait until next fall or next winter.

Mr. WAKEFIELD. Yes.

Senator PROXMIRE. Has the Justice Department approved the voluntary allocation program that was announced yesterday?

Mr. LIGON. They have, Senator Proxmire. They are members of the Oil Policy Committee and they have been conferred with with regard to this issue.

Senator PROXMIRE. What concerns me especially is whether or not this was a possible violation of the Anti-trust laws. Did they address themselves to that possibility?

Mr. LIGON. I am sure they did in consideration——

Senator PROXMIRE. They specified it?

Mr. LIGON. No, sir. I am not aware of whether they specified it or not. But they did approve it in general terms and I assume that they looked at the antitrust implication of it.

Senator PROXMIRE. Will you check and find out?

Mr. LIGON. I shall be glad to do so.

Mr. WAKEFIELD. I believe it was the antitrust division that was involved in our consideration.

Senator PROXMIRE. Double check and be sure that they did.

[The letter from the Justice Department to the Treasury Department was submitted for the record earlier in the hearings and is printed at p. 350.]

Senator MCINTYRE. Mr. Secretary, you and I went out to Bellingham, Wash., a long ride, but the brochure that the Arco people gave me, in reading it over, it said that that clean refinery was based on technology of 10 years ago.

As we look toward the question of refineries for New England, which I hope will be one of the long-term answers, we are going to have a crunch, there is no doubt about it—has not technology improved in 10 years—do we know how to build a refinery even cleaner than the one we saw at Arco? Do you know that or are you a neophyte like myself, learning it?

Mr. WAKEFIELD. I am sure technology has improved to some extent. I do know, for example, that many of the existing refineries—I have toured the Shell refinery in the Houston area and they have retrofitted a great deal of this environmental equipment to, among other things, make the water that goes back into the Houston Ship Channel much cleaner than when it came out of the Houston Ship Channel for use in the refinery. As you know, the refinery we saw is a very environmentally clean refinery.

Senator MCINTYRE. We did not see any black smoke pouring out of it or anything in the air. They had a very elaborate treatment plant. I am hoping that we can cool some of these ecologists off.

The other day, Senator Proxmire said, and he probably in the end is right, that we have got to save our world, but I look for some real struggles in the Congress and in the Government at large for these

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environmental requirements and that is going to be one of the questions that we are going to have to be battling out in the next 2 or 3 years.

Mr. WAKEFIELD. I think part of the problem, Mr. Chairman, is lack of knowledge and I think, if we communicate and get the accurate information to the people as you have tried to do in connection with this refinery, that much can be accomplished.

Senator MCINTYRE. Mr. Ligon, the Independent Refiners Association were the last witnesses to testify yesterday, and they testified—their testimony was such that they felt that they would like to bring to Secretary Simon's attention various—I think they had eight points. So, we will be sending those over to the Secretary.

Mr. LIGON. That will be fine.

Senator MCINTYRE. They felt that some of their problems had just been overlooked in the great attempt to iron out all the inequities.

Mr. LIGON. We would be happy to meet with those people, too, Mr. Chairman, and have them discuss those eight points, if that would be to their liking.

Senator MCINTYRE. One thing was worrying me this morning coming in or last night going home, I do not know which it was, and that was if allocation is going to take place, here is a supplier, he is going to have to allocate 90 percent based on his base year. So, he is going to give 90 percent to his regular customers or to his regular brand stations. Over here in the past he has supplied the excess to some of these independents that we are concerned about.

Now, there was also a very strong differential in price, was there not, that independent out on the far perimeter received?

Mr. LIGON. There was a wholesale market created by the situation that you describe, Mr. Chairman.

Of course, the wholesale market was in essence a spot market and the price was certainly less, but it was not stable. It vacillated constantly. There was not a great difference in price but it was lower, of course.

Senator MCINTYRE. I was thinking, we are not going to make that supplier give this independent on the perimeter, the fellow who just used the excess—there is no more excess, right—he is not going to get that same advantage in pricing?

Mr. LIGON. No, he will not. In Mr. Simon's testimony yesterday, in exhibit A, there was some indication that, if a supplier has to supply one of the independents with product that he must replace at a higher price—he will be able to pass those costs on in the marketplace. Therefore, the independent will not always receive the type of price advantage that he had in the past, that is true.

Senator MCINTYRE. Sometimes he may.

Mr. LIGON. Sometimes he may.

Senator MCINTYRE. I do not see how, without any excess supply.

Mr. LIGON. It would be very difficult.

Senator MCINTYRE. I want to help the independents but I do not want to be unfair.

Mr. LIGON. That is right.

Mr. WAKEFIELD. I do not believe we will be able to create another spot market this year.

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Senator McINTYRE. Mr. Secretary, and Mr. Ligon, thank you very much for appearing this morning. I appreciate your testimony and your helpfulness to the committee.

[The statements follow:]

STATEMENT OF STEPHEN A. WAKEFIELD, ASSISTANT SECRETARY OF THE INTERIOR FOR ENERGY AND MINERALS

Mr. Chairman. I am happy to have this opportunity to discuss with you and members of your committee the petroleum supply stiuation in the United States. I would like to begin my statement with a synopsis of the total supply situation in 1973 as we see it, and go on from there to address the specific questions you requested we cover in this testimony.

DOMESTIC PETROLEUM SUPPLY IN 1973

We anticipate in 1973 that without conservation efforts product shortages probably will occur in some regions of the country, manifest either as gasoline shortages this summer, distillate shortages next winter or possibly both.

Our best estimates of supply and demand, however, indicate that the magnitude of the shortages we might experience is not large in the context of the total demand for gasoline and distillates.

If petroleum industry operates at maximum levels, and at least some effort is made on the part of fuel users to conserve fuels this year, supplies should be sufficient to meet all consumer requirements. On the other hand, if demands continue to increase rapidly, if there is no effort made to practice fuel conservation, if we experience some severe weather or other unusual occurrences, and if refiners are unable to operate at anticipated rates, then we could have a shortage of 2 to 5 percent of demand.

Given the operations of the industry over the first quarter of the year, our predictions from this point on show that if maximum feasible operations are attained, demands for gasoline and distillates can be met without stocks of product falling to unworkable levels. However, there is little flexibility to respond to any occurrence out of the ordinary. In a situation this closely balanced, any disruption in the normal system of supply will show up as a shortage of product. Because of the nature of the industry supply system, which we will discuss in more detail later, the more likely area to experience supply difficulties or shortages is the Midwestern United States. There will, at the same time, be distributors of petroleum products who will be short of supplies while others are not. We have already begun to see evidence of many suppliers, both majors and independents, who are allocating the supplies which they have available.

I would also like to point out that the product supply situation for gasoline is intertwined with that for distillates. We cannot now assure that a shortage will be confined to only one product, or whether supplies of both will be affected. As the summer progresses and we have the benefit of current information regarding industry operations, we can better assess the likelihood for shortages of distillate this coming winter.

WHAT ARE THE CAUSES OF THE CURRENT SITUATION?

Succinctly stated, the demand for petroleum products in the United States is out running our capacity to refine crude oil. While the reasons behind both the growth in demand and the lack of growth in refining capacity are many and complex, the unavoidable result is that we are at the limits of domestic refining capacity.

There has been much said about the complex interaction of policies and events which have resulted in the current situation, and I will not recount these here.

WHAT WILL BE THE IMPACT OF THE SHORTAGE OF THE NATION?

I must reiterate that a shortage this year is not certain, but at the same time, probable. We have examined a range of contingencies about our forecasts of supply and demand, and we conclude that a shortage of four to five

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percent of demand (about 250 to 300 thousand barrels per day expressed as gasoline) is perhaps the very worst we might experience. A shortage of 1 to 2 percent is more likely. If a 1 to 2 percent shortage is experienced, we would expect overall that the effect could be classified in terms of an inconvenience to the public. Freight shipments and delivery of goods would be delayed, motorists would find lines at some retail gasoline outlets and "closed" signs at others. In this kind of a situation, which is certainly not desirable, we would not expect any significant loss to the economy. Certain regions may experience some impact while in other areas the effect might pass all but unnoticed.

If the shortage were in the 4 to 5 percent range, which as I mentioned is unlikely but possible, probably some areas of the country would experience problems of a magnitude which could cause economic harm. However, it is impossible to say at what point a shortage might grow from the size of an "inconvenience" to one of real economic significance.

I would like to emphasize very strongly the impact which even a moderate level of fuel conservation would have on this situation. A demand suppression of 4 or 5 percent is possible with only very minor adjustments in our personal fuel consumption habits. Car pooling, increased use of available public transportation, and other easily implemented measures could erase our concern if the public would expend but a moderate effort to conserve fuel—not only gasoline, but fuel of all types. The encouragement of conservation practices should be of top priority to all of us who communicate with the public in order to minimize or eliminate the threat of shortages.

WHAT IMPACT WILL THE SHORTAGES HAVE ON COMPETITION IN THE INDUSTRY?

Over the past 5 or 6 years, spare refining capacity in the U.S. has steadily dwindled. As a result, considerable pressure has been felt by those in the industry who were dependent on wholesale supplies for their business. There might be some companies who will not be able to weather this period of tight supply and who will be forced out of business. There are others, also in the independent sector, who will be able to remain profitable and active.

It is not accurate to imply that the potential shortages this year are the sole cause for some independents' difficulties. The trend of the past several years has been visible, catching the entire industry between rising foreign crude prices, dwindling domestic crude supplies and lagging capacity. For some, however, this year may prove to be "the straw that broke the camel's back."

Many market areas in the country are almost entirely dependent upon independent companies for supply, and the loss of these suppliers could cause local shortages. For that reason we are attentive to the situation confronting the independent, and have taken steps in the past and more recently to provide some supplies to these markets. Sliding scale import allocations, exchange provisions, special quotas, expanding the role of the Oil Import Appeals Board, and lately the sale of Government-owned royalty crude oil are steps which are being taken in the interest of the independent. Deputy Secretary of the Treasury Simon in his testimony to this committee yesterday described a voluntary allocation program that has been developed whereby all suppliers would make available for sale on a State by State basis the same percentage of total crude oil and refined products to each classes of trade that it received during a base year comprising the last quarter of 1971 and the first three quarters of 1972.

WHAT STEPS CAN AND SHOULD BE TAKEN TO PREVENT SUCH SHORTAGES AND THEIR REOCCURRENCE?

First and foremost we must encourage conservation of fuels. This should not be regarded as solely a program of conservation to avert a short term shortage, but a serious rethinking of the way we all use—and waste—energy. While short term measures to mitigate the current problem can be implemented now with minimum inconvenience to the public, longer term and more difficult conservation practices must be encouraged also. We cannot continue to throw away a large portion of our energy supply in inefficient cars, homes and industries and expect to maintain a viable economy into the future.

Secondly, we must provide incentives for domestic energy source development, including petroleum supplies and refining capacity in the short term and

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alternative energy sources longer term. There is no way for a new import program or a rationing plan or any other short term action to create a new barrel of oil. The solutions are not that simple, and they involve thoughtful and careful implementation of the President's national energy policy.

Third, we must come to grips with the conflicts in our national priorities—the relative roles of clean environment, economic strengths, national security and adequate energy.

WHAT WILL BE THE IMPACT THAT GASOLINE SHORGAGES WILL HAVE ON HOME HEATING OIL SUPPLIES NEXT WINTER?

As I mentioned, all product supplies are basically interrelated. To the extent that maximum gasoline production is maintained through this year at the expense of building adequate stocks of heating oils, then the likelihood of fuel oil shortages next winter will be greater. Right now, stocks of heating oils are in good shape relative to previous years, and if operations go as forecast through the summer, we can likely expect that we will have adequate supplies for next winter. At this point we simply cannot make any firm projections because of the many variables involved. Even though heating oil supplies, overall, may be adequate, it appears probable that some refiners and some marketers will again encounter serious supply problems which will be reflected in their inability to supply their customers.

WHAT EFFECT WILL THE RECENTLY ANNOUNCED IMPORT PROGRAM HAVE ON THIS YEAR'S SUPPLIES?

The lifting of quantitative restrictions on imports will make foreign markets more accessible to U.S. companies in securing supplies. The ability of foreign markets to absorb the additional demands is not certain, however. It appears, for example, that foreign product prices will be higher than domestic prices, indicating a general tightness in world supply. However, the fact remains that the changes in the import program have at least removed quantitative restrictions on imports, and have suspended duties and fees on most of the oil which will be imported this year. To the extent that extra costs incurred in importing products can be recovered by the importers, we can reasonably expect imports to rise.

For the longer term, it is imperative that we maintain an incentive for investment in domestic capacity. Our remaining resources of oil and gas are very large. The difficulty is that they are not being translated into reserves available for immediate use at the rate required to meet our demands. What is presently lacking is the willingness to make the necessary commitments of capital and manpower to accomplish this task, and the restoration of this willingness was one of the main thrusts of the President's Energy Message of April 18. It will take time for the measures he proposed to become effective, but the undeniable truth is that the solution to all our energy problems lies here in our own country—quite literally under our very feet.

INFORMATION SUPPLIED BY DUKE R. LIGON, DIRECTOR, OFFICE OF OIL AND GAS

OFFICE OF OIL AND GAS TO ADMINISTER VOLUNTARY PROGRAM TO ALLOCATE CRUDE OIL AND REFINERY PRODUCTS

The Department of the Interior's Office of Oil and Gas will begin immediately to administer a voluntary program for allocating crude oil and refinery products. Deputy Secretary of the Treasury William E. Simon, who also serves as Chairman of the Oil Policy Committee, announced this program in testimony before the Senate Committee on Banking, Housing and Urban Affairs.

Specifically, under the program, each producer, refiner, marketer, jobber and distributor would make available in each State to each of its customers the same *percentage* of its total supply of crude oil and products that it provided during each quarter of a base period. The base period is defined as the fourth quarter of 1971 and the first three quarters of 1972.

Moreover, the Office of Oil and Gas may request that a producer, refiner, marketer, jobber or distributor make special allocations for priority customers.

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These allocations would not exceed 10 percent of any supplier's total sales of crude oil and products during the base period. This 10 percent would provide a safety-valve whereby priority users who, for some reason are not well-served under the proportional allocation program, obtain needed oil or petroleum products. It would be of particular importance to new customers who have entered the marketplace since 1971-72.

In distributing the 10 percent "safety-valve," priority will be given to supplying the following activities:

1. Farming, dairy and fishing activities and services directly related to the cultivation, production and preservation of food.
2. Food processing and distribution services.
3. Health, medical, dental, nursing and supporting services, except commercial health and recreational activities.
4. Police, fire fighting and emergency aid services.
5. Public passenger transportation, including buses, rail, intercity and mass transit systems, but excluding tour and excursion services.
6. Rail, highway, sea and air freight transportation services, and transportation and warehousing services not elsewhere specified.
7. Other state and local government activities.
8. The fuel needs of residents in states or parts of states not well served by major oil companies and unable to obtain sufficient crude oil or products.

Wholesale and retail marketers of gasoline will be considered priority customers if they supply a substantial proportion of their product to priority users.

Persons who feel they are not receiving a proper allocation of supplies may appeal to the Office of Oil and Gas. In such cases, the Office may require a public hearing and suppliers may be asked to submit data on their 1971 and 1972 distribution of crude oil and products. Such data might include the names and addresses of customers, the amounts of crude oil and products sold to them and the legal relationship between major oil companies and customers. The Office of Oil and Gas would verify the accuracy of complaints against a supplier and, if justified, impose mandatory allocations on the supplier.

The Oil Policy Committee will begin hearings to determine if any changes to the voluntary program are required to make it more equitable to suppliers and purchasers, and whether the program should be made mandatory.

Questions concerning the voluntary program should be addressed to the Office of Oil and Gas, Department of the Interior, Washington, D.C. 20240. (Tel. 202-343-9417).

[Telegram]

This is to notify you of the allocation program announced by Mr. W. E. Simon on May 10, 1973, before the Senate Committee on Banking, Housing and Urban Affairs.

The Government has established an allocation program for both crude oil and refinery products. The program will rely on voluntary compliance with guidelines, set by the Government, calling for the supply of no less than the proportion of 1971 and 1972 sales to independents and other customers at prices not exceeding posted and rack prices charged by producers, refiners, marketers, distributors and jobbers.

The Office of Oil and Gas will administer the program and may assign to each producer, refiner, marketer, jobber and distributor allocations for priority customers still unable to obtain needed supplies of crude oil and products, not to exceed 10% of any supplier's total sales of crude oil and products during the base period. This assignment by OOG will be based upon demonstrated need.

A copy of the program, as announced by Mr. Simon, will be mailed to you shortly.

Our purpose is to apportion, as evenly as possible, any curtailment in consumption that will result from gasoline and distillate shortages. Priority will be given to meeting the needs of farming and food production, essential industries, state and local governments, and other essential categories.

The program, which is effective immediately, will apply to all segments of the industry. I solicit your support in this effort which is very essential to our national well being.

DUKE R. LIGON.

96-183—73——27

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Senator McINTYRE. We call as our next witness Dr. John T. Dunlop, Director of the Cost of Living Council.

We are glad to welcome you here, Mr. Dunlop. You are already getting experience, I think, at the witness table. I hope that you will, when you sit down, introduce the gentleman who is accompanying you for the record. Before you start your testimony, Dr. Dunlop, Senator Proxmire has requested an opportunity to make a brief statement.

So I recognize Senator Proxmire.

Senator PROXMIRE. Mr. Director, you are here to testify this morning on problems connected with the oil crisis—the prospect and practicality of controlling oil prices. I will not take more than a couple of minutes of the subcommittee's time but the situation is too urgent and your appearance here is too convenient for me to avoid making a public plea to you on your overall responsibilities, not just with respect to oil, but with respect to other prices as well.

I commend to you a full-page ad in this morning's New York Times placed by Business Week.

This advertisement raises unshirted hell with the failure of phase III, warns of the impending inflation explosion and calls for action—right now.

Because this ad comes not from a consumer group, not from anti-business government-can-do everything type but because it comes from Business Week, a conservative obviously pro business publication, and since it expresses the views of those whose interests might be hurt by vigorous controls, I commend it to your attention and I will read briefly from it:

A NEW INFLATION

Inflation has exploded again. It hit a 6 per cent rate in the first quarter and it is going strong in the second. April wholesale prices were climbing at a 12 per cent annual rate with the industrial sector gaining at a rate of 15.6 per cent. The showing would have been far worse if farm prices had not taken a temporary breather after increasing at a 60 per cent rate in March. Phase III is manifestly a failure and minor changes, such as last weeks' order requiring large companies to give advance notice of price increases, will not save it.

In short, the U.S. is launched on another round of boom and bust. It was fed too much monetary and fiscal stimulation in 1971 and 1972. Phase II controls were lifted too soon. Inflationary expectations were fanned by too much talk about voluntarism and self-policing controls in Phase III.

CONTROLS WITH TEETH

The problem that faces President Nixon now is to bring the boom under control before it turns into an inflationary explosion. This does not mean penitently acknowledging past mistakes, as the President's advisers seem to believe. It means taking a realistic measure of the situation and devising measures to restrain the break-neck pace of the economic expansion.

There is an alternative to standing pat and letting the economy rush ahead into disaster. It consists of a combination of new, tough wage-price controls and strict fiscal and monetary discipline. It is a painful answer and it involves some risk. But it is the course the Administration should take.

THE FIRST STEP

The first step should be to scrap Phase III and go back to wage-price controls at least as tough as Phase II and considerably broader in scope. Price controls should apply to all farm and food products—Not just at retail but far enough

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back down the line of distribution and production to put effective pressure on prices at the point of first sale. The rules on passing through cost increases should be tightened. The merry game of taking a markup for profit on cost increases should stop.

With the new controls must go a strict program of enforcement. The big trouble with Phase III has not been its rules but the way the rules have been ignored.

They also go into the importance, of course, of fiscal and monetary policy.

That is beyond your area of jurisdiction but they conclude this way. They say:

Above all, the Administration must act now. There is always a lag between the time a policy is adopted and the time it takes effect. If the Administration waits, it will find itself in the fatal position of having its toughest restraints start to bite at the worst possible moment, after the economy has gone over the top and started down the slope into recession.

I disagree with a few of the details in this ad, but I think the thrust is something that reflects the views of the business community and certainly the overwhelming majority of Americans, since we are all consumers.

Again I apologize to the chairman for having taken time to talk on something that is not directly related to the explicit purpose of your appearance but I could not resist a convenient opportunity.

Senator McINTYRE. I think, doctor, now that Senator Proxmire has gotten that off his chest, you go ahead and testify, we will quiz you, when his turn comes Senator Proxmire may wish to proceed further.

Senator PROXMIRE. I might just say, I wanted to get it off my chest into your brain.

STATEMENT OF JOHN T. DUNLOP, DIRECTOR, COST OF LIVING COUNCIL ACCOMPANIED BY CHARLES R. OWENS

Mr. DUNLOP. Thank you, Mr. Chairman. I am delighted to introduce to you Mr. Owens of the Staff of the Cost of Living Council who is a specialist in the subject you have invited me to testify on this morning and I would hope that he would have the opportunity to respond to some of the questions you or Senator Proxmire or others may choose to put to us.

I believe I filed with you, Mr. Chairman, a statement——

Senator McINTYRE. Yes, you have.

Mr. DUNLOP [continuing]. And I have also for you, as the statement indicates, copies this morning of amendments to special rule No. 1 which are presented to the Federal Register today as set forth in the statement. If you do not now have a copy of that legal document, I will hand you one in the course of this morning's hearing, and to the other members of the committee.

The statement is not too long and I might proceed to read it, excerpting certain portions of it.

Senator McINTYRE. Any points in your statement that you can compress or condense, we would appreciate it in the interest of time. But I want you to have the feeling that you are getting your points across.

You can go ahead in any manner that you want. Your statement will be included in the record in its entirety.

Mr. DUNLOP. I will follow your instructions.

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I am pleased to have the opportunity to discuss current petroleum price problems and to describe the actions which the Cost of Living Council has taken to avoid inflationary price increases in this vital sector of the economy while, at the same time, administering price controls so as to encourage the necessary increase in supplies which this country must have.

By the way, I happen to think in passing that this area provides a good commentary and basis for debate sometime, Senator Proxmire, about the use of controls, as this statement makes clear. The problem is on the one hand, to be certain that price increases are moderated, that they are not unnecessary, that they do not represent undue impact on the American consumer, while, at the same time ensuring that they do not interfere unduly with the calling-forth of those necessary supplies which are essential as the boom proceeds upward in many, many sectors of our economy.

Now, the Cost of Living Council is aware that energy prices must be allowed in the future to increase somewhat, in order to stimulate development of new energy reserves. At the same time, the Council's responsibility is to prevent significant inflationary price increases. There is a potential conflict, frankly, between (1) allowing the energy industry price flexibility to attract the capital necessary for the development of additional energy resources and to tap higher cost sources on the one hand; and (2) Preventing significant inflationary price increases on the other.

The stabilization program rules for the oil industry have been very carefully designed with these twin objectives in mind.

I think I might skip over to the history and your role, Mr. Chairman, in bringing us to the order which the Cost of Living Council issued.

Increases announced in the price of home heating oil were among the most visible of price increases announced shortly after phase 3 began. In January, oil companies raised wholesale prices for No. 2 home heating oil by about 1 cent per gallon. The petroleum industry is among the nation's largest, and home heating fuel is a particularly important product. These increases received particular attention because of short supply in the face of severe weather conditions, especially in the early part of the heating season. It was widely reported that the Nation continued to face the threat of a home-heating oil shortage and we were told that available supplies and the current rate of production were inadequate to satisfy demand if temperatures in heating oil regions again ran below normal for a sustained period during the remainder of the winter season.

In some parts of the country, this tight situation caused companies to introduce rationing and other formulas for allocation among customers. Air quality standards had to be relaxed in some localities to permit buring of lower quality fuels. We also were concerned about reports of black market dealings in home-heating oil.

On January 29, the Cost of Living Council with the cooperation of the Internal Revenue Service, launched an investigation of the January heating oil price increases. This involved an extensive review of cost data of three major companies which had increased heating oil prices.

On February 7-9, the Council held hearings on oil pricing policy with special emphasis on the January heating oil increases.

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You, Mr. Chairman, came to those hearings and presented views to the Cost of Living Council. The primary purpose was to determine if the increases were within the cost justification standards of the economic stabilization program.

While the focus of the hearings was on fuel prices, it was obvious that price levels could not be divorced from supply considerations, so the Council received testimony in this area as well. In addition to testimony from members of both Houses of Congress, the Council heard from representatives of State and Federal government agencies, consumer organizations and various sectors of the petroleum industry. The result was a comprehensive look at price and supply conditions in the petroleum industry.

Following our hearings, the Council began an intensive review of the materials received during and subsequent to the hearings, as well as the data gathered by the joint Cost of Living Council/Internal Revenue Service investigation of company cost data.

The information presented at the Council's hearings confirmed that the Nation faced a petroleum supply problem. And it was clear from the hearing record that the general price increase for No. 2 heating oil in January was only the first in a series of anticipated price increases for most, if not all, petroleum products over the remainder of the year in view of the demand-and-supply conditions in this country and abroad. Industry representatives were not shy on this matter during the course of the hearings.

A classic demand-pull situation existed in the oil industry. Demand was rising rapidly and supplies of petroleum products were inadequate fully to satisfy demand at current prices. Additional supplies were not readily available at current prices and production was at roughly full capacity. At our hearings we were told that the root causes of this imbalance were:

1. Insufficient domestic crude oil production, although domestic producers are pumping proven reserves out of the ground as fast as possible; and

2. Insufficient domestic refinery capacity, although what is available is generally running at, or near full capacity.

At the time, no major additions to domestic refinery capacity were on industry drawing boards, and world supplies of crude oil—especially "sweet," or low-sulfur, crude oil—and refinery products were tight, as they are now. Nevertheless, this Nation has had to turn increasingly to the world market for crude and product supplies and because supplies are tight, if not short, we have had to pay higher prices.

There was a consensus at our hearings that, in addition to some shortages of home-heating oil during the remainder of the winter, some spot shortages of gasoline would occur this summer. Also, we were told that for the longrun there are potential shortages of distillates, generally, as well as gasoline and other products and crude oil, too. These shortages, instead of abating, would possibly become more acute.

That is the view that we were presented of what was ahead of us. The Cost of Living Council recognized in this situation a tremendous potential for a marked and steady rise in prices for refinery products and crude oil, as customers bid up prices in competition for a relatively limited short-run supply. In these circumstances, petroleum

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product prices could be expected to rise sharply to a degree that would neither be acceptable to the Nation nor be compatible with the standards and goals of the Economic Stabilization program.

On March 6, therefore, the Cost of Living Council instituted special mandatory rules for major oil companies. The rules amended Part 130 of the Cost of Living Council Phase III regulations by adding an appendix to subpart K and setting forth special rule No. 1, governing prices for the sale of crude petroleum and petroleum materials.

The Council's action was not a punitive measure. Rather than acting under subpart J of the Council's regulations which allows us to challenge actions we believe to be inconsistent with the standards of the Economic Stabilization program, the Council acted under Subpart K.

I want to make this point. Our conclusion, you see, was that there was justification under the then-existing rules for the actions that the companies took, but we wanted to tighten those up, and we acted under subpart K. I think I might skip reading subpart K but the point is that we were acting under a rule which permitted the Council to reassert controls over an industry or a part, and to provide a special rule applicable to that section. The Council instituted special rule No. 1 for two reasons:

First to be certain that increasing pressure for higher crude oil and petroleum product prices does not lead to inflationary price increases; and

Second, to assure oil companies flexibility under phase III to respond to market conditions in the United States and abroad in order to maintain adequate supplies of crude oil and petroleum products in this country, and to make their output in the seasonal patterns that go on in order to accommodate the shift from heating oil to petroleum products during the year.

Uncertainty about price constraints of the Economic Stabilization program was given by oil companies as one reason why they were not expanding refinery capacity or stepping up oil exploration efforts in this country.

For that reason, among others, the Cost of Living Council determined that it would clarify the Government's policy in applying price controls to the oil industry so that the industry would be encouraged to commit additional capital to increase production.

It is important at this juncture to point out that while we were developing the precepts of special rule No. 1, we were aware of the impending actions, which the Government recently announced, to increase petroleum supplies. In particular, I am talking about the oil import program announced by the President in his energy message to Congress. Indeed, both programs—one dealing with price, the other with supply—were developed together and the controls program is seen as operating in tandem with Government efforts to increase the overall supplies of oil available in this country.

The intent of special rule No. 1 is to aid in assuring an adequate supply of oil for this Nation at reasonable prices without interfering with the ability of oil companies to respond to seasonal variations in demand, market conditions both here and abroad, and individual company circumstances.

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The action affects the 23 companies which derive more than $250 million in annual revenues from the sale of covered items. These firms account for approximately 95 percent of industry gross sales of more than $80 billion.

The products covered by the special rules are: (1) Petroleum products either manufactured or purchased for resale, and (2) crude oil, either produced or acquired domestically, or imported for resale. The covered items account for 76 percent of industry gross sales.

The special rule limits price increases for these products to a weighted annual average price increase of 1 percent above base price for the year beginning January 11, 1973. Increases above that figure, up to 1.5 percent on a weighted annual average basis, must be supported by new cost justification. New cost justification is allowable costs incurred after March 6, 1973. Any increases above 1.5 percent over base also must be cost-justified and are subject to profit margin limitations and to the prenotification rules of the Council. Term limit pricing authorizations applicable to firms subject to the special rule were terminated by this special rule.

The Council determined that the companies covered by the order had incurred sufficient cost increases to justify a 1 percent weighted annual average price increase for covered items. Hence, covered companies are not subject to profit margin limitations under the 1 percent mandatory standard and there is no maximum for price increases on individual product lines, except as is indicated by the overall limits of Special Rule No. 1. The 1 percent limitation includes all price increases instituted for covered items since the announcement of phase III on January 11, 1973, including January price increases for No. 2 home-heating oil.

Companies affected by this action are required to report to the Cost of Living Council monthly on posted price movements, cost increases, and supply conditions. These companies will continue to report quarterly on realized price movements, cost increases, and profits as required under the regulations.

This morning I have sent to the Federal Register a technical amendment to Special Rule No. 1. I have copies of that amendment for members of the committee. The Council indicated that this amendment would be forthcoming when Special Rule No. 1 was announced on March 6.

In other words, at that time we indicated that this rule would be forthcoming.

The amendment clarifies definitions under the special rule and deals primarily with accounting treatment of resale transactions and exchanges.

The next several pages are somewhat technical in nature and I shall be glad to go over them if you wish. If you would rather not, I will skip them and come to the point of saying that the purpose of this amendment, then, is to allow a wholesaler and retailer of covered products to pass through to consumers the increased costs which he has incurred and over which he has no control. The Council anticipates that this rule, while clearing up base price definition problems, will be sufficient in encouraging the importation of increased foreign crude oil and product supplies to help alleviate the very tight supply situation the nation now faces.

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Senator PROXMIRE. Did you change that word, you have "significant" in your text. You say "sufficient" now. There is quite a difference.

Mr. DUNLOP. I meant significant. Significant is the word, Senator Proxmire.

The final section of this amendment defines the proper accounting treatment for exchanges of crude oil. Such exchanges are made between oil companies mainly to acquire the type and quality of crude oil needed by a particular refinery. These exchanges are made at posted prices plus transportation and other costs. Often several exchange transactions—purchases or sales—occur before each party has acquired the desired type of crude oil. For example, in 1972 one company produced 263,100 barrels per day but processed 415,900 barrels per day through its domestic refineries. The difference of 152,800 barrels per day was acquired by importing 50,400 barrels per day and by net domestic purchases of 102,400 barrels per day, as a result of purchasing 355,800 barrels per day and selling 253,400 barrels per day.

These swaps and exchanges have been an historical feature of this industry.

For internal accounting purposes, these exchanges are recorded by the companies as sales and purchases, although they are, in fact, barter transactions which net neither party any profit or revenues. For purpose of Special Rule No. 1 this accounting approach only becomes a problem when the price of crude oil increases. With an increase in the price of crude, exchange sales and purchases show up in company records as contributing to increases in revenues and costs equal to the increase in price. This tends to distort the revenue and cost picture for Cost of Living Council purposes because these additional revenues are not derived from consumers, and the additional costs are not passed on to consumers.

Consequently, the Council has determined that to the extent that crude oil exchanges are for equal dollar value, the additional book revenues derived as a result of a price increase above base price for crude oil should not be included in a firm's total revenues when calculating its weighted annual average price increase.

There are companies in the oil industry aside from the 23 majors subject to Special Rule No. 1, that are subject to the more general phase III guidelines. As you know, on April 30, President Nixon signed a 1-year extension of the Economic Stabilization Act as passed by Congress. Two days later, he announced new antiinflationary steps to strengthen the operation of the controls program.

I think I need not go over that portion of the testimony, except to point out that those firms with sales over $250 million are required to keep detailed records of costs, price, and profit information which must be retained by them and must be made available to the Cost of Living Council upon our request.

I think that really summarizes all the rest of that statement, Mr. Chairman, since it will be in the record and I am ready to respond to your questions with Mr. Owens.

[The full statement of Mr. Dunlop follows:]

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STATEMENT OF JOHN T. DUNLOP, DIRECTOR OF THE COST OF LIVING COUNCIL

Mr. Chairman, I am pleased to have the opportunity to discuss current petroleum price problems and to describe actions which the Cost of Living Council has taken to avoid inflationary price increases in this vital sector of the economy while, at the same time, administering price controls so as to encourage the necessary increase in supplies which this country must have.

The Cost of Living Council is aware that energy prices must be allowed in the future to increase somewhat, in order to stimulate development of new energy reserves. At the same time, the Council's responsibility is to prevent significant inflationary price increases. There is a potential conflict between (1) allowing the energy industry price flexibility to attract the capital necessary for the development of additional energy resources and to tap higher cost sources on the one hand, and (2) preventing significant inflationary price increases on the other. The stabilization program rules for the oil industry have been very carefully designed with these twin objectives in mind.

As this Committee well knows the present phase of the Stabilization Program is designed to provide a transition from comprehensive and mandatory controls throughout the economy to more reliance on the marketplace and collective bargaining. Formal review and approval procedures have been reduced. The essential purpose is to transfer much of the responsibility for decision-making on individual prices and wages from the government bureaucracy to the decision makers in the private sector. At the same time, it is necessary to assure that the progress achieved under the stabilization program will be sustained in all sectors. We seek to guard against widespread and abrupt surges of wages and prices that may follow attempts of firms or workers to bring wages or prices up to levels that might have been realized without any controls. The transition to less reliance on a system of wage and price controls is always a difficult undertaking, involving as it does a gradual release of whatever pressures for price and wage adjustments might have been built up by controls without damaging confidence in government's resolve to continue its efforts to reduce inflation.

Increases announced in the price of home heating oil were among the most visible of price increases announced shortly after Phase III began. In January, oil companies raised wholesale prices for No. 2 home heating oil by about 1¢ per gallon. The petroleum industry is among the nation's largest, and home heating fuel is a particularly important product. These increases received particular attention because of short supply in the early part of the heating season. It was widely reported that the nation continued to face the threat of a home heating oil shortage, and we were told that available supplies and the current rate of production were inadequate to satisfy demand if temperatures in heating oil regions again ran below normal for a sustained period during the remainder of the winter season.

In some parts of the country, this tight situation caused companies to introduce rationing and other formulas for allocation among customers. Air quality standards had to be relaxed in some localities to permit burning of lower quality fuels. We also were concerned about reports of black market dealings in home heating oil.

On January 29, the Cost of Living Council with the cooperation of the Internal Revenue Service launched an investigation of the January hearing oil price increases. This involved an extensive review of cost data of three major companies which had increased heating oil prices. On February 7–9, the Council held hearings on oil pricing policy with special emphasis on the January heating oil increases. The primary purposes was to determine if the increases were within the cost justification standards of the Economic Stabilization Program. While the focus of the hearings was on fuel prices, it was obvious that price levels could not be divorced from supply considerations, so the Council received testimony in this area as well. In addition to testimony from members of both Houses of Congress, the Council heard from representatives of state and federal government agencies, consumer organizations and various sectors of the petroleum industry. The result was a comprehensive look at price and supply conditions in the petroleum industry.

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Following our hearings, the Council began an intensive review of the materials received during and subsequent to the hearings, as well as the data gathered by the joint Cost of Living Council/Internal Revenue Service investigation of company cost data.

The information presented at the Council's hearings confirmed that the nation faced a petroleum supply problem. And, it was clear from the hearing record that the general price increase for No. 2 heating oil in January was only the first in a series of anticipated price increases for most, if not all, petroleum products over the remainder of the year in view of the demand and supply conditions in this country and abroad. Industry representatives were not shy on this matter during the course of the hearings.

A classic demand-pull situation existed in the oil industry. Demand was rising rapidly and supplies of petroleum products were inadequate fully to satisfy demand at current prices. Additional supplies were not readily available at current prices and production was at roughly full capacity. At our hearings we were told that the root causes of this imbalance were:

1. Insufficient domestic crude oil production, although domestic producers are pumping proven reserves out of the ground as fast as possible; and
2. Insufficient domestic refinery capacity, although what is available is generally running at, or near full capacity.

At the time no major additions to domestic refinery capacity were on industry drawing boards and world supplies of crude oil—especially "sweet," or low-sulfur, crude oil—and refinery products were tight, as they are now. Nevertheless, this nation has had to turn increasingly to the world market for crude and product supplies and because supplies are tight, if not short, we have had to pay higher prices.

There was a consensus at our hearings that, in addition to some shortages of home heating oil during the remainder of the winter, some spot shortages of gasoline would occur this summer. Also, we were told that for the long run there are potential shortages of distillates, generally, as well as gasoline and other products and crude oil, too. These shortages, instead of abating, would possibly become more acute.

The Cost of Living Council recognized in this situation a tremendous potential for a marked and steady rise in prices for refinery products and crude oil, as consumers bid up prices in competition for a relatively limited shortrun supply. In these circumstances, petroleum product prices could be expected to rise sharply to a degree that would neither be acceptable to the nation nor be compatible with the standards and goals of the Economic Stabilization Program.

On March 6, therefore, the Cost of Living Council instituted special mandatory rules for major oil companies. The rules amended Part 130 of the Cost of Living Council Phase III regulations by adding an appendix to subpart K and setting forth Special Rule No. 1 governing prices for the sale of crude petroleum and petroleum materials.

The Council's action was not a punitive measure. Rather than acting under Subpart J of the Council's regulations, which allows us to challenge actions which we believe are inconsistent with the standards of the Economic Stabilization Program, the Council acted under Subpart K. Subpart K provides:

"Whenever the Council in the course of administering the Economic Stabilization Program determines that the goals of the program would be significantly advanced by reasserting controls over an industry, sector of the economy, or a part thereof, it may issue a special rule providing, on a prospective basis, for the stabilization of prices or wages and salaries on a mandatory basis, in that industry, sector of the economy or part thereof."

The Council instituted Special Rule No. 1 for two reasons:

First, to be certain that increasing pressure for higher crude oil and petroleum product prices does not lead to inflationary price increases; and.

Second, to assure oil companies flexibility under Phase III to respond to market conditions in the United States and abroad in order to maintain adequate supplies of crude oil and petroleum products in this country.

Uncertainty about price constraints of the Economic Stabilization Program was given by oil companies as one reason why they were not expanding their refinery capacity or stepping up their oil exploration efforts in this country.

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For that reason, among others, the Cost of Living Council determined that it would clarify the government's policy in applying price controls to the oil industry so that the industry would be encouraged to commit additional capital to increase production.

It is important at this juncture to point out that while we were developing the precepts of Special Rule No. 1, we were aware of the impending actions which the government recently took to increase petroleum supplies. In particular, I am talking about the oil import program announced by the President in his Energy Message to Congress. Indeed, both programs—one dealing with price, the other with supply—were developed together, and the controls program is seen as operating in tandem with government efforts to increase the overall supplies of oil available in this country.

The intent of Special Rule No. 1 is to aid in assuring an adequate supply of oil for this nation at reasonable prices without interfering with the ability of oil companies to respond to seasonal variations in demand, market conditions both here and abroad and individual company circumstances.

The action affects the 23 companies which derive more than $250 million in annual revenues from the sale of covered items. These firms account for approximately 95 percent of industry gross sales of more than $80 billion.

The products covered by the special rules are: (1) petroleum products either manufactured or purchased for resale, and (2) crude oil, either produced or acquired domestically, or imported for resale. The covered items account for 76 percent of industry gross sales.

The special rule limits price increases for these products to a weighted annual average price increase of 1 percent above base price for the year beginning January 11, 1973. Increases above that figure, up to 1.5 percent on a weighted annual average basis, must be supported by new cost justification. New cost justification is allowable costs incurred after March 6, 1973. Any increases above 1.5 percent over base also must be cost justified and are subject to profit margin limitations and to prenotification rules of the Council. Term limit pricing authorizations applicable to firms subject to the special rule were terminated.

The Council determined that the companies covered by the order had incurred sufficient cost increases to justify a 1 percent weighted annual average price increase for covered items. Hence, covered companies are not subject to profit margin limitations under the 1 percent mandatory standard and there is no maximum for price increases on individual product lines, except as is indicated by the overall limits of Special Rule No. 1. The 1 percent limitation includes all price increases instituted for covered items since the announcement of Phase III on January 11, 1973, including January price increases for #2 home heating oil.

Companies affected by this action are required to report to the Cost of Living Council monthly on posted price movements, cost increases and supply conditions. These companies will continue to report quarterly on realized price movements, cost increases and profits as required under the regulations.

This morning I have sent to the Federal Register a technical amendment to Special Rule No. 1. I have copies of that amendment for members of the Committee. The Council indicated that this amendment would be forthcoming when Special Rule No. 1 was announced on March 6. The amendment clarifies definitions under the Special Rule and deals primarily with accounting treatment of resale transactions and exchanges.

Sections (a) and (b) of the amendment clarify the definition of "base price" with respect to:

1. The sale of products that prior to the issuance of Special Rule No. 1 were subject to term limiting pricing agreements; and,
2. The resale of crude oil and refinery products at wholesale and/or retail (the reseller rule).

The reseller rule is not new. It is essentially an extension of the Phase II wholesale markup rules for wholesalers and retailers. The rule allows a company to purchase product or crude (foreign or domestic) at an increased cost and to resell that product or crude at a price which reflects that higher cost plus the company's customary initial percentage markup (CIPM) without that increase in resale price counting against the company's price increase limitation under Special Rule No. 1. However, if a company increases its customary initial

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percentage markup on resale transactions, that increase in CIPM does count against its price increase limitation under Special Rule No. 1.

The purpose of this amendment, then, is to allow a wholesaler and retailer of covered products to pass through to consumers the increased costs which he has incurred and over which he has no control. The Council anticipates that this rule, while clearing up base price definition problems, will be significant in encouraging the importation of increased foreign crude oil and product supplies to help alleviate the very tight supply situation the nation now faces.

The final section of this amendment defines the proper accounting treatment for exchanges of crude oil. Such exchanges are made between oil companies mainly to acquire the type and quality of crude oil needed by a particular refinery. These exchanges are made at posted prices plus transportation and other costs. Often several exchanges transactions (purchases or sales) occur before each party has acquired the desired type of crude oil. For example, in 1972 one company produced 263,100 barrels per day but processed 415,900 barrels per day through its domestic refineries. The difference of 152,800 barrels per day was acquired by importing 50,400 barrels per day and by net domestic purchases of 102,400 barrels per day as a result of purchasing 335,800 barrels per day and selling 253,400 barrels per day.

For internal accounting purposes, these exchanges are recorded by the companies as sales and purchases, although they are in fact barter transactions which net neither party any profit or revenues. For purpose of Special Rule No. 1 this accounting approach only becomes a problem when the price of crude oil increases. With an increase in the price of crude, exchange sales and purchases show up in company records as contributing to increases in revenues and costs equal to the increase in price. This tends to distort the revenue and cost picture for Cost of Living Council purposes because these additional revenues are not derived from consumers, and the additional costs are not passed onto consumers.

Consequently, the Council has determined that to the extent that crude oil exchanges are for equal dollar value, the additional book revenues derived as a result of a price increase(s) above base price for crude oil should not be included in a firm's total revenues when calculating its weighted annual average price increase.

There are companies in the oil industry aside from the 23 majors subject to Special Rule No. 1, that are subject to the more general Phase III guidelines. As you know, on April 30, President Nixon signed a one-year extension of the Economic Stabilization Act as passed by Congress. Two days later he announced new anti-inflationary steps to strengthen the operation of the controls program.

In general, these steps call for a system of price reporting and mandatory recordkeeping and for an increase of Economic Stabilization Program staff resources. Specifically, the actions include:

First, a prenotification requirement. This affects major companies who have implemented or intend to implement price increases which will result in the company's weighted annual average price increase exceeding 1.5% over prices authorized or lawfully in effect on January 10, 1973.

Second, a system of quarterly reports on price, cost and profit data affecting some 650 firms with sales over $250 million.

Third, detailed records of cost, price and profit information will have to be retained by some 2,700 firms with sales over $50 million. These records must be made available to the Cost of Living Council upon request.

Fourth, the CLC–2 Form to implement the new reporting, prenotification and recordkeeping program has been issued.

And, fifth, the authorized staff levels at both the Cost of Living Council and the Internal Revenue Service are being increased. The Cost of Living Council will increase its staff complement by about 15% and the Internal Revenue Service will increase its stabilization program resources for fiscal year 1974 by a third.

It is important to emphasize that, if price increases by a firm or within an industry warrant action, the Cost of Living Council has the authority to take appropriate action. The Council may challenge or suspend price increases which are prenotified and considered unjustified under these new requirements.

These changes have been designed to equip the Stabilization Program with more timely information on price increase developments and to enable the

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Council to forestall behavior which is unreasonably inconsistent with program standards and goals.

The procedures ensure that the Cost of Living Council is aware of problem areas as they develop. Moreover, they allow the Council to consider appropriate actions on an individual company or on an industry-wide basis. Such actions include the use of the Council's mandatory control authority and its ability to stimulate government and private action to expand supplies.

Senator McINTYRE. Thank you.

One issue concerning prices within the oil industry that has been raised by a number of witnesses that have testified this week concerns the problem of domestic prices versus foreign prices for imported petroleum products and crude oil.

Several witnesses, particularly those representing the major oil companies, testified that domestic price controls are severely hampering efforts to import oil supplies and that, in fact, price controls may well contribute to the shortages of petroleum products and crude oil. Their argument is that while price controls limit domestic prices, world prices are substantially higher and that these price controls inhibit them from importing necessary supplies.

Do you feel, Doctor, that the changes that are being published in the Federal Register today will alleviate this problem and at the same time hold to a minimum inflationary pressures?

Mr. DUNLOP. May I just comment this way, Mr. Chairman, on that? We have held a whole series of conferences, one by one, with individual oil companies, other elements of the petroleum industry, really continuously from week to week since our Special Order No. 1 was issued. We were concerned, to be sure, as to the impact of our regulation.

It is our view on the basis of those conferences that this reseller rule, which is being placed in the Federal Register as I announced this morning, will make a contribution to the facilitation of imports of the sort your question referred to and make a contribution to the situation.

We intend further to keep in touch with the situation, and in the week or two ahead have further meetings scheduled to follow up on what the impact is and how various elements of the industry view the amendments to Special Rule No. 1 which are being put into effect as announced this morning.

We think it will make a contribution and I think most of the industry does, too, sir.

Senator McINTYRE. In the last month domestic crude oil prices have increased substantially in this country with some price increases as high as 40 cents a barrel. The Cost of Living Council, as you have said, has taken action to examine these and have had many conferences on these crude price increases.

Is it your opinion that these increases still stay within the 1 percent mandatory price standard?

Mr. DUNLOP. May I ask Mr. Owens to answer that? He is a little closer to that. We do have an investigation underway on precisely the magnitude of those changes in domestic crude prices to which you refer.

Senator McINTYRE. In your statement, it seems to me, if my memory is right, after phase III, the petroleum majors announced a 1 percent increase or something like that———

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Mr. DUNLOP. Only on No. 2 heating oil.

Senator MCINTYRE. In your statement, you are indicating that you felt, after hearing their case, that the increase was justified.

Mr. DUNLOP. Was "cost-justified" under the rules of the Cost of Living Council as they existed when they relied upon those rules to put such increases into effect. We, if you would like, in the popular phrase, "tightened the rules" thereafter in Special Rule No. 1.

Mr. OWENS. Further, about a penny increase that they put on heating oil was included in the 1 percent that we later allowed after March 6 under Special Rule No. 1.

I essentially wanted to say on the crude question that we are investigating that and we are nearing a completion of that investigation. We have IRS agents in the field checking records of the companies who are involved in that increase.

Mr. DUNLOP. May I, Mr. Chairman, just say a word in addition to that?

From an economic point of view, we face serious concern over the fact that the international prices have risen, are rising, and may be expected to rise, and that a differential has been opened up of appreciable proportions between the price of domestic crude and the price of comparable grades and qualities of oil in the international markets. The problems of two price systems, wherever you find them, are certain to raise difficulties for all buyers and sellers, and consequently, are certain to raise problems with anyone seeking to control prices in this kind of two-market arrangement.

This is a matter that has our very serious concern. We are also much concerned in the lumber area. You may remember that the differential price between the United States and Canada on lumber represented a kind of differential which clearly was unavoidable and prices rose in the United States to match the Canadian price in the early quarter of the year.

This differential between domestic crude and foreign crude is a matter of very serious concern on the part of the Cost of Living Council and its staff.

Senator MCINTYRE. Do you wish to add anything, Mr. Owens?

Mr. OWENS. No, sir.

Senator MCINTYRE. I am sure, Doctor, that you would agree that, while we must take every step possible to assure that oil shortages are minimal to the maximum extent possible this year, that we must also make sure that the costs for these products can be justified in a manner compatible with our national goal of trying to reduce inflation. Now, do you feel that the oil industry has sufficient price flexibility to meet demand without significantly contributing to our inflationary problem?

Mr. DUNLOP. Mr. Chairman, the thought you express in your question is precisely the point of view with which I concur, that is, the need of seeking the twin objective of a price structure that gives us adequate supply but does not, at the same time, permit the American consumer to be taken advantage of by substantial price increases. We have designed Special Rule No. 1 and the technical amendments of today in order to call forth the added supply and keep the price increases associated with that to the minimum. We also built into them a flexibility. Instead of setting a price ceiling on gasoline and

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on heating oil and a whole series of other special products, it was our notion to have a price regulation system which permitted the companies to shift their raw materials among these separate products according to the needs of the market and the shifting seasonal patterns or demand.

Senator McINTYRE. Now, this Senator is no economist. As a matter of fact, I studiously avoided taking any courses in economics for fear that I might be getting a D or even less. So, I really do not want to be unfair to any segment of this industry.

When I think of flexibility in your discussions, I suppose it is inappropriate for you to consider what the profits of these major oil companies are in the first quarter.

Mr. DUNLOP. The profits of the oil companies are a matter of enormous concern to us, Mr. Chairman.

Senator McINTYRE. They are?

Mr. DUNLOP. Indeed, and their base period profits, which are essential to the administration of our cost justification rules. As a matter of fact, if a company comes in, as some have, and asks for an increase in their prices which should exceed their base period profit margin, we tend to tell them, no, as we have done before.

Mr. OWENS. In recent days we have taken that action. We had a company, Ashland Oil, that came in and asked for the authorization to increase prices up to 2.4 percent over the remainder of the period covered by Special Rule No. 1. Because that company had violated and remains in violation of its base-period profits margin, the violation occurred in phase 2, we turned down the request.

Consequently, we are very concerned and are responding to that concern and profits and profit margin.

Senator McINTYRE. That No. 2 Heating Oil, when you raised that price, that price went up 1 cent in New England. We use an awful lot of that stuff. It cost our consumers up there something like $40 million.

My staff man says $60 million. It is all pretty tough.

Let me say for the record, I am reading from the U.S. Oil Week of April 30, 1973, on page 6 there is a box which says:

> Major oil company profits zoomed ahead in the first quarter as shortages allowed them to charge prices beyond their wildest dreams.
>
> Exxon, the World's largest oil company, typically has posted gains of from about 3 to 7 per cent, but now its profit has jumped 43 per cent to $508 million in the first quarter.

Mr. DUNLOP. Mr. Chairman, may I comment on that matter of oil company profits, because the issue is a more general one as well.

First of all, I would remind you that the Stabilization Agency does separate profits from foreign operations from profits growing out of domestic operations. If one simply looks at the published figures for profits, one wants to be sure he is dealing with domestic profits in talking about domestic price and wage policies. I am sure you would appreciate the significance of that in dealing with companies such as those involved here which are international in their operations. Now, the second point to make about this is that the level of profits in some industries has risen very sharply, and I, for one, have been interested in trying to separate the extent to which those profits have risen by virtue of wider profit margins per unit, so to speak, and

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those which are due to the expansion of output. For American industry generally in 1972—I do not have this breakdown for the first quarter yet of 1973—about half of the increase in corporate profits was the result of margin changes and about half of its was the effect of volume.

It seems to me, in thinking about price and about controls, that it is very important to associate the relative impact of changes in volume and changes in margins.

Senator McINTYRE. I grant you that. As a matter of fact, I think, when I mentioned this U.S. Oil Week article, when the majors were here, that several of them were on their feet in the back of the room, protesting that it was not an accurate figure.

You have answered my question by saying, yes, you do consider the profits that the companies are making. I am not against their making a profit. I am not against their doing a good job for their stockholders. I do not like their taking too much when it is costing the consumers up in New England and the Midwest out of their pockets.

There have been several recent news stories indicating that our recent gasoline shortage can force prices up to 50 or 60 cents a gallon at retail.

Do you feel that increases of this magnitude can be made by the industry and still say within the mandatory price standards of your agency?

Mr. DUNLOP. No.

Senator McINTYRE. Do you feel that the allocation program announced yesterday and your action today in amending your price rules will have the combined effect of lessening the impact of shortages particularly of gasoline and home-heating oil this year?

Mr. DUNLOP. At the present time my answer to your question is yes. I have indicated earlier that we are dealing with a complicated situation and I would like, as I have been doing, to follow it from week to week.

Generally the answer at this stage, to your question is yes.

Mr. OWENS. May I also say, Senator, that the answer to a shortage is always additional supplies. If you simply redistribute the short supplies you have, you really have not relieved the shortage.

Consequently, maybe that sort of program in the very near term is the best effort, but at the same time, we cannot forget that the way to get rid of the shortage is to increase supply.

Senator McINTYRE. I think Secretary Simon indicated that yesterday, that he could get this whole problem out of the way if he could just create himself a barrel of crude oil, but he cannot.

Senator Proxmire.

Senator PROXMIRE. Dr. Dunlop, I am not going to get into what I believe would be a gross and shocking evasion of the law by the Cost of Living Council's misinterpretation of the Hathaway Disclosure amendment. I fought hard for that amendment in the committee. I fought hard for it on the floor and in conference and we succeeded and there was a bitter fight as you know. There was an attempt by those who opposed it to have the conference report resubmitted and we beat them by a vote in the Senate. It is my feeling that we won the battle but we lost the war because of this interpretation.

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I am not going to get into that this morning, because I want to get into it later. We are working hard to prepare our position on that and at later hearings we will have a chance to get into that.

I would also like to question you at a later time with respect to your executive compensation position which I have had a chance to look at, but that is also not related to this particular hearing.

Mr. DUNLOP. I would be delighted to respond to questions at any time on both subjects.

Senator PROXMIRE. On page 11 you say that the purpose of the amendment which you announced here is to allow a wholesaler and retailer of covered products to pass through to consumers the increased costs which he has incurred and over which he has no control. I want to make sure I understand that. Does that mean that the new policy would permit a cost to pass through plus the 1 percent increase, or does this not apply to the same firms?

Mr. OWENS. Let me assure you, first, that this is not a new policy, as Mr. Dunlop indicated in his testimony. The reseller rule is nothing new. We had almost a picture of the rule in phase II. It was just named something else. It was called the wholesale-retail rule.

What we are talking about here is there are companies in this business who buy products, they do not produce them, or they are subsidiaries of larger companies, they do not produce product, they simply go out in the market, albeit it is the world market, buy product and resell it, then in areas where most often you will find they are not particularly well served by the major companies.

These resellers fulfill a vital need in that sense. The prices they have to pay for product they have no control over. Consequently, if the prices they pay go up, for them to maintain the vital service they perform of supplying these products, they have to be able to pass on those costs that they cannot control.

What we are simply saying here is that the customary initial percentage markup they put on the cost to themselves must remain the same.

Otherwise, if that goes up, then it counts against the total companies if this is a subsidiary; it counts against the total company's 1-percent limitation or 1.5-percent limitation, wherever the company stands at that moment.

Senator PROXMIRE. What are the exceptions where it will not count against the company's 1-percent increase?

Mr. OWENS. Where the product is purchased and there is an increase in costs that is uncontrolled by the reseller and he puts on the price that he then transfers it to the consumer, if he puts his customary initial percentage markup on there, that is no increase on the cost that he can control himself.

Then, of course, the increase that the ultimate consumer pays does not count against one or the one and a half.

Senator PROXMIRE. I am trying to square your statement in which you say, "that he had incurred sufficient cost increases to justify a 1 percent weighted annual average price increase for covered items."

You apparently find in this case that is not sufficient.

Mr. OWENS. That is not exactly the case. What we are talking about here is obviously a very volatile—we all recognize a very volatile

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situation both in this country and in the rest of the world, and resellers buy product from day to day, and they have to be able to buy product on a moment's notice. When offered a shipment of product, they have to say, I will take it. If they do not, they will lose it. Their business is finding product to serve their consumers' needs.

Mr. DUNLOP. How does this apply to the large companies?

Mr. OWENS. This rule applies to the 23 companies we have in mind. The resellers in this group of 23 companies, there are not that many of them to begin with, and generally these are subsidiaries of these larger companies.

Senator PROXMIRE. These large companies by and large are not wholesalers or retailers, are they? Aren't they primarily refiners and producers?

Mr. OWENS. You are right.

Senator PROXMIRE. The large companies would get the 1 percent? The passthrough would apply primarily to wholesalers and retailers who are aside and apart from the large companies?

Mr. OWENS. That is right, or subsidiaries of the larger companies in some cases.

Senator PROXMIRE. And that part of the subsidiary is permitted a cost passthrough in addition to the 1 percent.

Mr. OWENS. The 1 percent applies to the entire company. The small subsidiary down here that's operating as a reseller, if it increases its customary initial percentage markup, that contributes and works against the 1 percent.

Senator PROXMIRE. I would like to ask you, Dr. Dunlop, as a distinguished economist at whose feet I sat way back a few years ago when you were at Harvard, a kind of philosophical question but also a fundamentally economic question. As I view it what the oil depletion allowance and intangible drilling provision in the Internal Revenue Code and other provisions for tax advantages for oil companies—subsidize the motorist, the consumer, whether it is the motorist or the householder, at the expense of all the taxpayers.

That may be justified. It is one way of explaining why instead of permitting supply and demand to operate and treat oil companies like everybody else on a tax basis, we give them an advantage which encourages them to explore for oil, that tax advantage is very costly to the Treasury, billions of dollars when you consider all of the tax advantages, and it means that the motorist pays less for his gasoline, the householder pays less for his fuel oil.

Is that the economic effect on the assumption that of course, you have an overall open access to the oil business and you have a competitive situation in which the returns are reasonably moderate over the years?

Mr. DUNLOP. Senator, I am no expert on the depletion allowance. I am sure we could get to you all kinds of specialists and experts on it.

My limited understanding about it is that the fundamental purpose has to do with the question of stimulating output—the fundamental purpose of the provisions of the tax law have been to try to stimulate the output of particular products; in this case, the drilling of oil wells.

Out of the so many oil wells that are driven, only so many will produce.

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Senator PROXMIRE. What I was getting at, is this is one way of doing it. Another way is simply the old supply-and-demand situation of letting the price go up. Obviously, if you did not have these tax concessions, the price of gasoline and the price of oil for all purposes would rise and you would get an increase, at least an increase in encouragement for supply that way.

Mr. DUNLOP. It does not follow that the supply would be the same. You see the question you are asking, it seems to me, is that there is a simple transference between a rise in the price level and the depletion allowance. The depletion allowance is an attempt—whatever its merits are—to concentrate upon the stimulation of supply.

Now, I would agree with you that there could be conceivably a sufficiently higher price that could act as a stimulant to supply, but what the tradeoffs are between the price form of stimulation versus the depletion allowance form of stimulation is not quite a simple matter.

Senator PROXMIRE. You are right.

It is not simple. It may be a rough purpose that is served by either permitting the prices to rise or by having tax concessions.

I agree you cannot say it is one for one.

Mr. OWENS. Implicit in your question is the suggestion that while we are all taxpayers, we are not all energy users.

I gathered what you were saying is we allow these special tax breaks to satisfy the needs of only special consumers.

Senator PROXMIRE. That is exactly the case.

We are all energy users to one degree or another. But some use it a great deal more than others. Those who use it a great deal are subsidized, rightly or wrongly.

It may be a good policy. What I am getting at is this.

One of the purposes of the regulation is to prevent significant inflationary price increases.

But it seems to me that we have a serious long-term situation here. In the first place, you have the long-term increase in the use of automobiles, a long-term increase in the use of electricity, increased long term use of fuel oil and gas for housing.

Everybody says that these are all going to increase, demand is going to be up, it is going to be more serious in 1975 and 1976 than now.

This is a special situation. This is not true, I think in most of the other areas. We do not have this shortage of resources by and large. In other areas we anticipate that in future years we will have a better relation rather than a more adverse relationship with respect to supply and demand.

When you take a look at supply, on that side it is much less likely to increase. The domestic supplies including Alaska and offshore supplies, are limited at best.

They are much more slowly going to expand than demand. The world supply, because of the dollar devaluation and because world demand is increasing even more rapidly than here—the automobile has much farther to go in European countries. The world supply is now becoming increasingly more limited because the Arab countries are unified and because the Arab countries are recognizing how

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much it is to their interest to limit their export of oil and how they are going to deplete the great economic resources they have got.

So, for all these reasons, it seems to me you have got quite a different ballgame that requires a different kind of approach and whether it is an approach that should consider the possibility of permitting prices to rise and some kind of a tax tradeoff, I don't know. I cannot think of anything less popular than to advocate at this time an increase in the price of gasoline or oil and I suppose it is not politically possible whether it is right or not.

I do think, it is a different situation requiring some quite different approach.

It is a way of decontrolling—getting out of controls, while at the same time recognizing when you do that, that the price is probably going to rise.

Do you have any thoughts now on this?

Mr. DUNLOP. Yes.

It seems to me that one must distinguish the short term stablilization problems which are the immediate concerns of the Cost of Living Council, from the longer-run matters that are the subject of the remarks you made in the first part of your statement a moment ago. It does seem to me also that for the long run we do not yet know enough about what an economist would call the elasticity of supply of the total energy situation and the various components of it.

If we put our minds to that over a period of a decade, while there are constraints there, I think we may be able to find ways of keeping those cost increases from being as high as some people have estimated they will go.

So, it seems to me that your concern about the long run is thoroughly justified and public policy has been more and more directed into that area, I think.

On the other hand, in the short period of 1973, the year ahead, it seems to me our problem, as I stated at the very outset of this statement, is to balance, on the one hand, you might almost say, the minimum necessary price increases and price flexibility to get the output so that we do not have undue shortages, and on the other hand, without permitting the companies involved at all levels price increases and profit rates which jack up the very—what is it, about $100 billion, which the country spends in this area. I would be the first to confess to you that how to walk that line is a difficult problem.

Senator PROXMIRE. Do you have any knowledge of any studies that you know of that are going on to determine what would happen if we simply had no controls, let the price rise and supply and demand adjust?

Mr. DUNLOP. In the petroleum area?

Senator PROXMIRE. It has some very serious problems as far as the consumers are concerned. From the environmental standpoint it might be desirable. It would force people into car pools more than anything else. It would result in people conserving their gasoline usage. Again if it is too extreme, obviously, the country will not stand that kind of shock. If there is a study that indicates that the price rise might be moderate, that might be something else.

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Mr. DUNLOP. There are all kinds of energy studies going on. I think the outside limit for 1973 is not hard to figure out. IT is the world price.

Senator PROXMIRE. How does that translate at the gas pump? Would that be a 10 percent increase?

Mr. OWENS. You must determine the differential, of course, between the world price and the domestic price of crude.

That varies up and down. Let us say it is 75 cents.

Mr. DUNLOP. As the differential.

Senator PROXMIRE. For what?

Mr. OWENS. Seventy-five cents is the differential per barrel between domestic crude and foreign. There is a standard axiom that says a 25-cent increase in the price of crude is equal to a penny at the pump.

Senator PROXMIRE. What happens to that 75-cent difference?

Mr. DUNLOP. One comment. It happens that we are dealing with a dynamic situation—I am sure you would agree—in the sense that there is a rather tight supply situation in the world.

If we go out into those markets and buy, that will force prices up higher.

Secondly, I need not perhaps emphasize the fact that there are still negotiations going on which have effects upon the world price. So, the calculations which you have made I think, are roughly correct as to a given, static situation at this moment. What obviously concerns us—and, I am sure, everyone else—is the course of these prices both during 1973 and for the longer period to which you referred in which these other dynamic elements are likely to be operative.

Senator PROXMIRE. Do you have any idea as to the amount of increase in the price of gasoline, the percentage increase that might necessitate a stepping in with far more serious measures like rationing for motorist and so forth?

Mr. DUNLOP. The way we look at it I think is this—

Senator PROXMIRE. As I undestood you to explain it, we do not know what is going to happen this summer and we have notions. It depends on what happens to the world price. It depends on what happens to the supplies we have available. It depends on how the companies respond. There is no way of telling. The price might go up very sharply.

Some people indicate that it might go up to 50 cents. Others say that is an exaggeration.

Mr. DUNLOP. I would agree that there is some uncertainty in the situation. We do not know the precise amount of finished product of imports. We do not know the precise rate of capacity of all the refineries in the country.

These are small variations. We do not know precisely the magnitude of demand this summer. But, as I responded to Senator McIntyre a while ago, the magnitude of price increase that was mentioned of 50 cents and so forth, I answered that I did not see that.

Moreover, it is absolutely clear that before that could take place these companies would have to come back to us to ask for increases in their price levels—from us—because in order to get those prices

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they would exceed their percent or percent and a half margin——

Senator PROXMIRE. Except the regulation you talked about this morning that you put into effect is aside and apart from that 1½ percent it seems to me.

Mr. DUNLOP. These are marginal amounts which get combined into the very large volume that is already there.

Senator PROXMIRE. Can you assure the subcommittee that there is no prospect of anything like a 15- or 20-percent increase in the cost of gasoline this summer and this regulation will not permit that?

Mr. OWENS. The reseller rule deals in fact with a very small part of the industry. In fact, in total revenues relative to the covered products, it contributes maybe 2 percent of those total revenues and that is stretching it some.

At the same time you are talking about their having to bring in such a volume of foreign supplies or buying a volume in this country. And clearly that volume is not available, a volume of such a large magnitude as to be able to increase the price on it to affect the overall average price. I just do not think the volume is available.

Senator PROXMIRE. You can give us the assurance that it will not go up to that?

Mr. DUNLOP. Not as a result of the resellers rule.

Senator PROXMIRE. You say it may go up but not as a result of that ruling.

This is quite crucial with respect to the policy the Congress may adopt.

Mr. DUNLOP. Let me respond categorically to your question: It is my considered judgment that no such rise is possible without the companies coming to the Cost of Living Council for advance approval.

I do not know what the world will bring. I can conceive now of no circumstances in which such approval would be forthcoming.

Senator PROXMIRE. I do not see how you can give a better assurance than that.

Thank you, Mr. Chairman.

Senator MCINTYRE. In your statement you talk about that pass-through amendment.

The purpose of this amendment is to allow a wholesaler and retailer of covered products to pass through to consumers the increased costs which he has incurred and over which he has no control.

Have you made any estimate at all of what that would mean to the consumer or what the cost would be to the consumer?

Mr. OWENS. We are talking here again of maximum contribution to the covered revenues of possibly 2 percent.

The impact on the consumer we would feel would essentially go unnoticed. There is the possibility that prices in this area could increase at the rate that they are increasing in terms of the cost of foreign supply and that would still be the case.

Mr. DUNLOP. The answer is, "minimal."

Senator MCINTYRE. I want to thank you, Dr. Dunlop, and Mr. Owens, for being here this morning.

We appreciate your very fine statement and your answers to our questions.

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We call as our final witness, Mr. Alan S. Ward, Director of the Bureau of Competition of the Federal Trade Commission.

It is a pleasure to have you appear before the committee today, Mr. Ward. Before you begin your testimony, I woud like to say the Federal Trade Commission and the Federal Government sustained a substantial loss with your recently-announced departure from the FTC. During your service with the Federal Trade Commission you have impressed me and a number of my colleagues on the Hill with your dedication to the public interest and your activity with the FTC.

Under your leadership, the Bureau of Competition has moved in a number of areas to maintain and develop competition within our economy and I can only hope that your successor will continue to aggressively enforce the Federal Trade Commission Act and serve as well as you have.

STATEMENT OF ALAN S. WARD, DIRECTOR, BUREAU OF COMPETITION, FEDERAL TRADE COMMISSION; ACCOMPANIED BY ROBERT E. LIEDQUIST, ASSISTANT DIRECTOR, BUREAU OF COMPETITION; MICHAEL L. GLASSMAN, CHIEF, DIVISION OF ECONOMIC EVIDENCE, BUREAU OF ECONOMICS; WARREN GREENBERG, ECONOMIST, BUREAU OF ECONOMICS; AND HENRY M. BANTA, COUNSEL, BUREAU OF COMPETITION

Mr. WARD. Thank you very much, Mr. Chairman. That is a very high compliment.

I would like to begin by introducing my colleagues from the Commission. Mike Glassman from the Bureau of Economics, Robert Liedquist from the Bureau of Competition, Warren Greenberg, from the Bureau of Economics, and Henry Banta, from the Bureau of Competition.

They have all been working on investigations and other work involving the oil industry and have been working with me on the preparation of my remarks this morning.

I appreciate very much the opportunity to appear before this committee today to discuss the impact of possible gasoline shortages on the Nation's economy. My statement is based upon work being done at the Federal Trade Commisison which deals directly with competition in the oil industry.

I want to emphasize at the outset that my conclusions reflect analysis by the Commission's Bureaus of Competition and Economics and do not constitute an official statement for the Federal Trade Commission or any Commissioner. The Commission has neither reviewed nor approved my testimony. In this connection, I have with me a letter from the Honorable Lewis A. Engman, Chairman of the Federal Trade Commission, expressing the concern of the Commission in connection with its statutory law enforcement responsibilities about the problems which are the subject of this committee's hearings. With your permission, I would like to read Chairman Engman's letter.

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Dear Senator McIntyre:

The present shortage of gasoline appears to be creating problems which are of special concern to the Federal Trade Commission because of its responsibility for the maintenance of free and fair competition. For the past year the staff has been conducting an intensive investigation into the petroleum industry. Because of the development of the present shortage, their efforts have been intensified and the Commission has asked the staff to report their recommendations on an accelerated schedule.

Signed, Lewis A. Engman, Chairman.

As Chairman Engman's letter indicates, our pending investigation of competitive problems in the oil industry has not been completed. The Commission has not determined that competition among oil companies has been restrained by any individual company or by a group of companies and I am not here to suggest that charges are likely. We have, however, reached a stage in our investigation where I believe that we can respond helpfully to some of the questions Senator McIntyre posed in his May 1, 1973, letter inviting me to testify. Our work in this industry should contribute to understanding and I hope solution of the current emergency situation.

I am not prepared this morning to answer all of the questions posed in Senator McIntyre's letter. The Commission staff has not yet studied in any depth the causes of the gasoline shortage. We have not gotten any statistics or any other data reflecting the likely scope of the shortages in the months ahead, either for companies or geographic areas. We do believe that suspension of the oil import quota system will tend to increase supplies of petroleum products but we cannot now make informed judgments about competitive and other ramifications of the new system.

I will confine my discussion this morning, therefore, to the competitive significance of the predicted shortages, and to a review of action which might be taken now to forestall the worst predictable effects of such shortages, and later to forestall any similar crisis in the future.

I would like to make some brief preliminary observations about current and predicted shortages.

First, the supply shortage is a crisis principally for the non-integrated sector of the oil industry. Some marketing and distributing companies, large and small, may be forced out of business. In contrast, there are no firm indications that major integrated firms face a business crisis. The first effect of the shortage on several of the majors was a sharp increase in their profits.

Second, if the supply crisis does seriously weaken nonintegrated marketers or force any significant number of them out of business, the damage to oil industry competition will be extremely grave. Independent marketers have exerted a beneficial influnce upon oil industry competition that is disproportionate to their actual representation within the industry. They are innovators of distribution methods and traditionally have been the primary agents in translating efficiencies into lower consumer prices. Their role in keeping oil markets competitive, flexible and dynamic has been vital.

As a consequence, I would regard any substantial weakening of the independent sector of the oil industry as disastrous for competition. Even in the short run, the result would probably be sharply higher

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consumer prices. In the long run, I would anticipate the increased unresponsiveness to market conditions and deteriorations in product quality and service characteristic of noncompetitive markets. Once arrived at such a point, remedial alternatives are extremely limited, direct government regulation, or stringent antitrust relief, corporate divestiture or dissolution.

The possibility of such serious competitive consequences if supply shortages are not ameliorated for independent marketers, makes necessary broad consideration of all available preventive enforcement possibilities. We are now doing that.

The Comission's investigation of the structure and performance of the oil industry of course was undertaken before the current crisis arose. As the chairman's letter indicates, we are expediting that investigation and are directly considering product supply problems. We have scheduled investigational hearings beginning May 21 and will seek testimony from executives of the major oil companies on this specific problem and other subjects We have also consulted with the Antitrust Division of the Department of Justice and are working with them to develop a coordinated and effective approach to the immediate competitive problems of the nonintegrated sector of the industry.

I want to stress, once again, that we are studying the possibilities for antitrust enforcement action. We have not made firm judgments and we have not recommended that any cases be filed.

Our basic antitrust statutes, section 5 of the Federal Trade Commission Act and the Sherman Act, enforced by the U.S. Department of Justice, provide powerful weapons to deal wtih all varieties of anticompetitive practices and conditions. If it should develop that the major companies enjoy adequate supplies as a result of restrictive arrangements with each other, or as a consequence of deliberately acquired and maintained market dominance, refusals to make product available to the independent sector would require antitrust enforcement action. Preliminary injunctive relief could be sought to assure independent marketers of uninterrupted product supply.

It would be wrong, however, to infer that antitrust enforcement offers a sure remedy for the immediate emergency that seems to face the independents. There are significant limitations on our ability to deal with such serious competitive problems on a crisis basis. The likelihood of getting adequate preliminary relief is not easy to predict in any case and depends heavily on specific facts and charges. Factual variations relating to companies, markets and conduct would raise practical obstacles to gaining broad preliminary relief affecting many companies. At our current stage in the investigation, I cannot assure you that recourse to the courts will relieve the independent's immediate supply problems.

I emphasize this point this morning because it is an important reason why other available alternatives should be thoroughly considered.

If supplies which are voluntarily made available by the major oil companies are insufficient to maintain a competitive independent marketing segment of the industry, other action to force fair allocation of available supplies might be fully justified. Whether or not existing law is an adequate basis for such action is a question I have not

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studied, and on which I express no opinion. I would note, however, in this connection that an important limitation on the effectiveness of a historical allocation formula is the fact that the major international oil companies have not traditionally dealt directly with independent marketeers. Allocation according to that type formula would thus minimize the impact of the allocation requirements on the companies which control the dominant share of available supply.

These brief observations underscore the gravity of the competitive problems which may be caused if current shortages damage independent marketers. I turn now to some brief comments on the causes of the gasoline shortage, and thereafter to a general review of our current investigation.

It is important to understand the causes of the current gasoline shortage not only so we can deal effectively with the shortage now, but so we can prevent similar occurrences in the future. Our work at the Commission, as I have noted, has not sought to find out what caused the shortages, but some significant causes can be readily identified.

Governmental intervention in areas such as prorationing of crude oil, depletion allowances and oil import quotas may all have had admirable long-term ends, but all have had some detrimental effects on competition. Prorationing was instituted to conserve and maintain orderly production of crude; it has, however, restricted supply. The depletion allowance has supposedly encouraged crude oil exploration; it has, however, tended to discourage new entry at the refining level.

The crude oil import quota was rationalized as necessary to protect this country from dependency on foreign crude sources, it has, however, curtailed supply sources for independent refiniers and marketers and encouraged high prices. Beyond that, our investigation strongly suggests that major company control of refinery capacity and pipelines has contributed in a major way to the present plight of the independent marketers and constitutes a primary competitive problem in the oil industry. When our inquiry has been concluded, we will know with greater precision what caused the present crisis, but certainly these factors all contributed.

Our current investigation, as the committee may be aware, was authorized by the Commission late in 1971. Following some preliminary work, subpenas were issued early in 1972 to a group of major oil companies. I would note that the subpenas were carefully drafted to seek a quite limited number of documents, for we were mindful of the probable need to seek a considerably greater document production at a later stage of the investigation.

Despite the narrowness of our request, there were prompt indications that most companies would refuse to produce the documents sought. In light of other experience with subpena enforcement delays, we withdrew those initial subpenas and different investigation tactics have since then been pursued. Documents and information were obtained on a voluntary basis from a substantial number of independent companies.

We have now once again issued subpenas to several major integrated oil companies. For several reasons, we has issued subpenas ad testificandum rather than subpenas for documents. We intend to

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develop necessary factual information primarily through testimony of knowledgeable corporate officials. This procedure will probably result in a more protracted investigation, which is unfortunate in the face of the emergency supply situation. We hope to obtain cooperation from the subpenaed companies, obviously, in order to expedite its conclusion.

At this stage of our investigation, we can isolate key determinants of the independent marketer's present plight that seem to be symptoms of fundamental competitive ills in the oil industry. Most important, the independents have been unable to obtain reliable sources of supply of refined gasoline. The largest major oil firms, we find, have not been in recent years important direct sources of gasoline to independent marketers. Instead, the independents have relied chiefly upon the product of independent refining companies and smaller integrated oil producers. Our investigation suggests that the major oil firms have been able to substantially influence the amount of gasoline available to independents from these sources in several ways.

The major oil companies as you know are also this country's major crude oil producers and importers and over the years have increased their ability to importantly influence the amount of crude oil available to independent refiners and therefore, the amount of gasoline available to independent marketers. The total supply of crude oil available to all refiners, which was limited in the 1930's by State prorationing programs, was further dramatically curtailed in 1959 by the imposition of a stringent mandatory import quota. Independent refiners, thus, were limited in their ability to obtain increased supplies of crude oil either from abroad or through additional domestic production and increasingly came to depend upon major company rivals for adequate supplies of raw material. In addition the major companies' control of pipelines affected the availability of crude oil to the independent refiners.

Since they became so dependent on the majors, it is not surprising that some independent refineries adopted a course of behavior which paralleled that of the integrated oil firms.

In particular these independent refiners have dealt cautiously with independent marketers. In some cases, they have been reluctant to sell to marketers who have exhibited considerable price aggressiveness. Moreover, the independent refiners, either formally or informally, have on occasion entered into processing agreements with major oil companies. Under these arrangements, the refinery receives needed crude oil from a major company in exchange for supplying refined gasoline to the major company's retail outlets. Where processing agreements are in force, even less of the product of independent refiners is available to independent marketers.

The amount of crude oil available to independent refiners is also limited by exchange agreements among the major companies. It is true that exchange agreements can, under certain circumstances, provide a more efficient geographical allocation of crude oil. It is also true, however, that such agreements can exclude independent refiners from needed raw material. Under exchange agreements, major companies trade or barter crude oil with one another, sometimes irrespective of the needs of independent refiners located in close proximity

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to the majors' surplus crude. Again, the fate of independent refiners is dependent upon the behavior of their major rivals, making highly unlikely any strong alliance between independent refiners and independent marketers.

Ordinarily, it might be expected that the demand for gasoline by independent marketers might encourage the building of new independent refineries induced to enter the market by rising prices for refined gasoline. In fact, however, entry into the refining level of the industry has been severely limited. The reasons for this are clear. First, the capital cost of building a minimally efficient refinery, which we define at approximately 100,000 barrels per day—the cost of building that size refinery is enormous.

A recent estimate is that the cost of a new and efficient refinery would be $250 million.

Second, it appears that a combination of high crude oil prices and low prices of refined products have kept margins which refiners can expect to earn to such a low level that new independent entry into refining has not been encouraged.

Indeed the oil depletion allowance creates for the majors an additional incentive to high crude prices and small refinery margins since a dollar of refinery products will always be taxed at a higher rate than a dollar of crude oil profits.

Since the combination of Cleveland refineries in 1871, concentration of ownership of refining capacity has been of critical significance to the competitiveness of the petroleum industry. The crises arising at the crude, refining or marketing levels of the industry are, more often than not, symptoms of the control expressed at the refinery stage of production.

Presently the major integrated oil companies clearly dominate oil refining in the United States. The situation in the eastern and gulf coast regions of the United States is illustrative. There we are referring to the petroleum districts 1 and 3 where almost 50 percent of all gasoline is consumed.

The eight largest integrated refiners have more than 65 percent of all refinery capacity. Since 1950, the demand for gasoline has just about doubled. Despite the rapid growth of the industry, concentration has remained practically unchanged.

Virtually no new entry has taken place. In a rapidly growing industry, one ordinarily expects that increases in demand will raise prices and elevate profits so that new firms attracted by enhanced profitability will enter the industry. As a result, concentration normally will diminist and so will the market power of leading producers. In the eastern region, district 1, only 1 independent refinery has been built since 1950, it was a 2,000-barrel-a-day refinery in Florida. On the Gulf Coast, district 3, only 1 refinery, Suntide, has entered the industry since 1950 with capacity greater than 10,000 barrels a day.

In fact, there is reason to believe that the majors' refining dominance is greater than our statistics indicate. This belief is based on two considerations. First, it is usually true that major oil companies operate nearer 100 percent of capacity than do independent refiners so if concentration could be measured in terms of production rather

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than capacity, the share of the majors would be greater than 65 percent.

Second, as I have already indicated, at least some of the production of independent refiners is controlled by the majors through direct and indirect processing agreements so that their market position is enhanced by this factor as well.

When crude oil was relatively abundant, independent marketers were able to obtain gasoline from independent refiners and the smaller integrated oil producers. Even then there was little or no margin for growth and expansion of these marketers beyond their then market penetration. Despite the fact that independent marketers were selling their products at prices well below those posted at major company stations, the independent share of total gasoline sales grew slowly if at all. The problem was particularly severe in the Northeast partly because of absence of independent refiners to supply independnt marketers.

Beginning in the late 1960's, the supply of crude oil became increasingly tight relative to the rapidly growing demand for petroleum products. The first firms to feel the pressure of relatively short supplies were the independent refiners. Their discomfort was quickly transmitted to independent retailers. Finally in 1973, the situation has become so severe that some independent marketers have been cut off from gasoline or face severe supply restrictions. No longer is the independent sector merely limited in its size. The independent sector beginning in 1972 has been faced with forces that seem to inevitably forecast a severe contraction of its importance in the petroleum industry.

I have already alluded to the complex issues which hinder prompt resolution of the immediate supply crisis. The longer range competitive problems are even more difficult. The greater availability of crude oil that seems to be assured by the President's recent actions will be helpful, but probably has limited significance for preserving or increasing competition. The need for further antitrust remedies, including such far-reaching measures as divestiture of refineries, or for that matter, marketing organizations or crude production, is being given careful study.

We are in a period of great national concern about this country's energy resources. In our efforts to assure efficient development and management of available energy resources, we must be attentive to the importance of preserving competition. All of our past experience with economic regulation justifies an enormous presumption in favor of competition over Government regulation. This is particularly true for this industry whose competitive character is so crucial to the progress and economic well-being of the American and the world economy. Thank you.

[The complete statement of Mr. Ward follows:]

STATEMENT OF ALAN S. WARD, DIRECTORS, BUREAU OF COMPETITION, FEDERAL TRADE COMMISSION

Thank you, Mr. Chairman, for the opportunity to appear before this Committee today to discuss the impact of possible gasoline shortages on our nation's economy. My statement is based upon work being done at the Federal Trade Commission which deals directly with competition in the oil industry.

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I want to emphasize at the outset that my conclusions reflect analysis by the Commission's Bureaus of Competition and Economics and do not constitute an official statement for the Federal Trade Commission or any Commissioner. The Commission has neither reviewed nor approved my testimony. In this connection, I have with me a letter from the Honorable Lewis A. Engman, Chairman of the Federal Trade Commission, expressing the concern of the Commission in connection with its statutory law enforcement responsibilities about the problems which are the subject of this Committee's hearings. With your permission, I would like to read Chairman Engman's letter.

As Chairman Engman's letter indicates, our pending investigation of competitive problems in the oil industry has not been completed. The Commission has not determined that competition among oil companies has been restrained by any individual company or by a group of companies, and I am not here to suggest that such charges are likely. We have, however, reached a stage in our investigation where I believe we can respond helpfully to some of the questions Senator McIntyre posed in his May 1, 1973, letter inviting me to testify. Our work in this industry should contribute to understanding and solution of the current emergency situation.

I am not prepared this morning to answer all of the questions posed in Senator McIntyre's letter. The Commission staff has not yet studied in any depth the causes of the gasoline shortage. We do not have statistics or other data reflecting the likely scope of the shortages in the months ahead, either for companies or geographic areas. We do believe that suspension of the oil import quota system will tend to increase supplies of petroleum products, but we cannot now make informed judgments about competitive and other ramifications of the new system.

I will confine my discussion this morning, therefore, to the competitive significance of the predicted shortages, and to a review of action which might be taken now to forestall the worst predictable effects of such shortages, and later to forestall any similar crisis in the future.

Some brief preliminary observations about current and predicted shortages will assist our analysis.

First, the supply shortage is a crisis principally for the nonintegrated sector of the oil industry. Some marketing and distributing companies—large and small—may be forced out of business. In contrast, there are no firm indications that major integrated firms face a business crisis. The first effect of the shortage on several of the majors was a sharp increase in their profits.

Second, if the supply crisis does seriously weaken nonintegrated marketers or force any significant number of them out of business, the damage to oil industry competition will be extremely grave. Independent marketers have exerted a beneficial influence upon oil industry competition that is disproportionate to their actual representation within the industry. They are innovators of distribution methods and traditionally have been the primary agents in translating efficiencies into lower consumer prices. Their role in keeping oil markets competitive, flexible and dynamic has been vital.

As a consequence, I would regard any substantial weakening of the independent sector of the oil industry as disastrous for competition. Even in the short run, the result would probably be sharply higher consumer prices. In the long run, I would anticipate the increased unresponsiveness to market conditions and deteriorations in product quality and service characteristic of noncompetitive markets. Once arrived at such a point, remedial alternatives are extremely limited—direct government regulation, or stringent antitrust relief, corporate divestiture or dissolution.

The possibility of such serious competitive consequences if supply shortages are not ameliorated for independent marketers, makes necessary broad consideration of all available preventive enforcement possibilities. We are now doing that.

The Commission's investigation of the structure and performance of the oil industry, of course, was undertaken before the current crisis arose. As the Chairman's letter indicates, we are expediting that investigation and are directly considering product supply problems. We have scheduled investigational hearings beginning May 21, and will seek testimony from executives of the major oil companies on this specific problem and other subjects. We have

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also consulted with the Antitrust Division of the Department of Justice and are working with them to develop a coordinated and effective approach to the immediate competitive problems of the nonintegrated sector of the industry.

I want to stress, once again, that we are studying the possibilities for antitrust enforcement action. We have not made firm judgments, and we have not recommended that any cases be filed.

Our basic antitrust statutes, Section 5 of the Federal Trade Commission Act, and the Sherman Act, enforced by the United States Department of Justice, provide powerful weapons to deal with all varieties of anticompetitive practices and conditions. If it should develop that the major companies enjoy adequate supplies as a result of restrictive arrangements with each other, or as a consequence of deliberately acquired and maintained market dominance, refusals to make product available to the independent sector would require antitrust enforcement action. Preliminary injunctive relief could be sought to assure independent marketers of uninterrupted product supply.

It would be wrong, however, to infer that antitrust enforcement offers a sure remedy for the immediate emergency that seems to face the independents. There are significant limitations on our ability to deal with such serious competitive problems on a crisis basis. The likelihood of getting adequate preliminary relief is not easy to predict in any case, and depends heavily on specific facts and charges. Factual variations relating to companies, markets and conduct would raise practical obstacles to gaining broad preliminary relief affecting many companies. At our current stage in the investigation, I cannot assure you that recourse to the courts will relieve the independents' supply problems.

I emphasize this point this morning because it is an important reason why other available alternatives should be thoroughly considered. If supplies which are voluntarily made available by the major oil companies are insufficient to maintain a competitive independent marketing segment of the industry, other action to force fair allocation of available supplies might be fully justified. Whether or not existing law is an adequate basis for such action is a question I have not studied, and on which I express no opinion. I would note, however, in this connection, that an important limitation on the effectiveness of an historical allocation formula is the fact that the major international oil companies have not traditionally dealt directly with independent marketers. Allocation according to that type formula would thus minimize the impact of the allocation requirements on the companies which control the dominant share of available supply.

These brief observations underscore the gravity of the competitive problems which may be caused if current shortages damage independent marketers. I turn now to some brief comments on the causes of the gasoline shortage, and thereafter to a general review of our current investigation.

It is important to understand the causes of the current gasoline shortage not only so we can deal effectively with the shortage now, but so we can prevent similar occurrences in the future. Our work at the Commission, as I have noted, has not sought to find out what caused the shortages, but some significant causes can be readily identified.

Governmental intervention in areas such as prorationing of crude oil, depletion allowances and oil import quotas may all have had admirable long-term ends, but all have had some detrimental effects on competition. Prorationing was instituted to conserve and maintain orderly production of crude; it has, however, restricted supply. The depletion allowance has supposedly encouraged crude oil exploration; it has, however, tended to discourage new entry at the refining level. The crude oil import quota was rationalized as necessary to protect this country from dependency on foreign crude sources; it has, however, curtailed supply sources for independent refiners and marketers and encouraged high prices. Beyond that, our investigation strongly suggests that major company control of refinery capacity and pipelines has contributed in a major way to the present plight of the independent marketers and constitutes a primary competitive problem in the oil industry. When our inquiry has been concluded, we will know with greater precision what caused the present crisis, but certainly these factors all contributed.

Our current investigation, as the Committee may be aware, was authorized by the Commission late in 1971. Following some preliminary work, subpoenas

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were issued early in 1972 to several major oil companies. I would note that the subpoenas were carefully drafted to seek a quite limited number of documents, for we were mindful of the probable need to seek a considerably greater document production at a later stage of the investigation. Despite the narrowness of our request, there were prompt indications that most companies would refuse to produce the documents sought. In light of other experience with subpoena enforcement delays, we withdrew those initial subpoenas and different investigation tactics have since then been pursued. Documents and information were obtained on a voluntary basis from a substantial number of independent companies.

We have now once again issued subpoenas to several major integrated oil companies. For several reasons, we have issued subpoenas *ad testificandum* rather than subpoenas for documents. We intend to develop necessary factual information primarily through testimony of knowledgeable corporate officials. This procedure will probably result in a more protracted investigation, which is unfortunate in the face of the emergency supply situation. We hope to obtain cooperation from the subpoenaed companies, obviously, in order to expedite the proceedings.

At this stage of our investigation, we can isolate key determinants of the independent marketer's present plight that seem to be symptoms of fundamental competitive ills in the oil industry. Most important, the independents have been unable to obtain reliable sources of supply of refined gasoline. The largest major oil firms, we find, have not been in recent years important direct sources of gasoline to independent marketers. Instead, the independents have relied chiefly upon the product of independent refining companies and smaller integrated oil producers.[1] Our investigation suggests that the major oil firms have been able to substantially influence the amount of gasoline available to independents from these sources in several ways.

The major oil companies, as you know, are also this country's major crude oil producers and importers, and over the years have increased their ability to importantly influence the amount of crude oil available to independent refiners, and, therefore, the amount of gasoline available to independent marketers. The total supply of crude oil available to all refiners, which was limited in the 1930's by state prorationing programs, was further dramatically curtailed in 1959 by the imposition of a stringent mandatory import quota. Independent refiners, thus, were limited in their ability to obtain increased supplies of crude

[1] The smaller integrated oil firms typically have not had fully developed marketing systems and have, as a consequence, sold this surplus gasoline to the independents.

oil either from abroad or through additional domestic production and increasingly came to depend upon major company rivals for adqeuate supplies of raw material. In addition, the major companies' control of pipelines affected the availability of crude oil to the independent refiners.

Since they became so dependent on the majors, it is not surprising that some independent refineries adopted a course of behavior which parallelled that of the integrated oil firms. In particular, these independent refiners have dealt cautiously with independent marketers. In some cases, they have been very reluctant to sell to marketers who have exhibited considerable price aggressiveness. Moreover, the independent refiners, either formally or informally, have on occasion entered into processing agreements with major oil companies. Under these arrangements, the refinery receives needed crude oil from a major company in exchange for supplying refined gasoline to the major company's retail outlets. Where processing agreements are in force, even less of the product of independent refiners is available to independent marketers.

The amount of crude oil available to independent refiners is also limited by exchange agreements among the major companies. It is true that exchange agreements can, under certain circumstances, provide a more efficient geographical allocation of crude oil. It is also true, however, that such agreements can exclude independent refiners from needed raw material. Under exchange agreements, major companies trade or barter crude oil with one another, sometimes irrespective of the needs of independent refiners located in close proximity to the majors' surplus crude. Again, the fate of independent refiners is dependent upon the behavior of their major rivals, making highly unlikely any strong alliance between independent refiners and independent marketers.

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Ordinarily, it might be expected that the demand for gasoline by independent marketers might encourage the building of new independent refineries induced to enter the market by rising prices for refined gasoline. In fact, however, entry into the refining level of the industry has been severely limited. The reasons for this are clear. First, the capital cost of building a minimally efficient refinery (approximately 100,000 barrels per day) is enormous. A recent estimate is that the cost of a new and efficient refinery would be $250,000,000.[2]

Second, it appears that a combination of high crude oil prices and low prices of refined products have kept margins which refiners can expect to earn to such a low level that new independent entry into refining has not been encouraged. Indeed, the oil depletion allowance creates for the majors an additional incentive to high crude prices and small refinery margins since a dollar of refinery products will always be taxed at a higher rate than a dollar of crude oil profits.

Since the combination of Cleveland refineries in 1871, concentration of ownership of refining capacity has been of critical significance to the competitiveness of the petroleum industry. The crises arising at the crude, refining, or marketing levels of the industry are, more often than not, symptoms of the control expressed at the refinery stage of production. Presently, the major integrated oil companies clearly dominate oil refining in the United States. The situation in the eastern and gulf regions of the United States is illustrative. (P.A.D.[3] Districts 1 and 3, where almost 50% of all gasoline is consumed.) The 8 largest integrated refiners have more than 65% of all refinery capacity.[4] Since 1950, the demand for gasoline has just about doubled. Despite the rapid growth of the industry, concentration has remained practically unchanged.[5]

Virtually no new entry has taken place. In a rapidly growing industry, one ordinarily expects that increases in demand will raise prices and elevate profits so that new firms attracted by enhanced profitability will enter the industry. As a result, concentration will diminish and so will the market power of leading producers. In the eastern region (District 1) only one independent refinery has been built since 1950; it was a 2,000 barrel a day refinery in Florida.[6] On the Gulf Coast (District 3) only one refinery, Suntide, has entered the industry since 1950 with capacity greater than 10,000 barrels a day.

In fact, there is reason to believe that the majors' refining dominance is greater than our statistics indicate. This belief is based upon two considerations. First, it is usually true that major oil companies operate nearer 100% of capacity than do independent refiners so that if concentration could be measured in terms of production rather than capacity, the share of the majors would be greater than 65%. Second, as I have already stated, at least some of the production of independent refiners is controlled by the majors through direct and indirect processing agreements so that their market position is enhanced by this factor as well.

When crude oil was relatively abundant, independent marketers were able to obtain gasoline from independent refiners and the smaller integrated companies. Even then, however, there was little or no margin for growth and expansion of these marketers beyond their then market penetration. Despite the fact that independent marketers were selling their products at prices well below those posted at major company stations, the independent share of total gasoline sales grew slowly, if at all. The problem was particularly severe in the Northwest partly because of the absence of independent refiners to supply independent marketers.

Beginning in the late 1960's, the supply of crude oil became increasingly tight relative to the rapidly growing demand for petroleum products. The first firms to feel the pressure of relatively short supplies were, of course, the independent refiners. Their discomfort was quickly transmitted to independent retailers. Finally, in 1973, the situation has become so severe that some independent marketers have been cut off from gasoline or faced severe supply restrictions.

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[2] Wall Street Journal, April 17, 1973, p. 15.

[3] The initials P.A.D. stand for "Petroleum Administration for Defense."

[4] U.S. Department of Interior, Bureau of Mines, *Mineral Industry Surveys Petroleum Refiners in the United States and Puerto Rico*, January 1, 1972. Table 2, pp. 4–12.

[5] *Ibid.* 1950–1972.

[6] *Ibid.* The new refinery in Florida was, therefore, approximately 1/50 the size of a minimum refinery.

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No longer is the independent sector merely limited in its size. The independent sector beginning in 1972 has been faced with forces that seem inevitably to forecast a severe contraction of its importance in the petroleum industry.

I have already alluded to the complex issues which hinder prompt resolution of the immediate supply crisis. The longer range competitive problems are even more difficult. The greater availability of crude oil that seems to be assured by the President's recent actions will be helpful, but probably has limited significance for preserving or increasing competition. The need for further antitrust remedies, including such far-reaching measures as divestiture of refineries, or for that matter, marketing organizations or crude production, is being given careful study.

We are in a period of great national concern about this country's energy resources. In our efforts to assure efficient development and management of available energy resources, we must be attentive to the importance of preserving competition. All of our past experience with economic regulation justifies an enormous presumption in favor of competition over government regulation. This is particularly true for this industry whose competitive character is so crucial to the progress and economic well-being of the American and the world economy.

Senator McINTYRE. Mr. Ward, during the hearings we have had this week several witnesses discussed the fact that several of the major oil companies recently began to market gasoline under secondary brand names, for example, Exxon has its secondary brand gasoline known as Alert. The witnesses representing the National Congress for Petroleum Retailers in testifying yesterday made the point that the reason why the majors were doing this was to develop control over prices at the unbranded level.

Is the FTC investigating this move by the majors in secondary marketing?

Mr. WARD. Those developments are being taken into consideration in the investigation that is ongoing. There is no specific investigation at the Federal Trade Commission of the development of the Alert stations and the other new brands of the major companies.

I believe there is a specific investigation of some of those new programs being conducted by the Department of Justice.

Senator McINTYRE. I did not know about that secondary marketing, and Exxon is not the only one. There are several others. I do not know the names; Swan, Blue Goose are some of the names.

Mr. WARD. In a way they are following the innovation of the independent marketing sector and are moving to direct competition with them.

Senator McINTYRE. Several witnesses have testified this week in order to develop meaningful competition in the domestic oil industry that the various functions should be divorced or separated.

Some have urged the divorcement take place between the production of crude oil and the refining of the product. Other witnesses have urged that the refining segment of the industry be divorced from the marketing segment.

Do you have any views on this question, Mr. Ward?

Mr. WARD. I would not want to predict the conclusion that we will ultimately come to if we were to determine that some relief such as that is necessary. There are a good many different opinions even on the Commission's staff.

Certainly, the divorcement of crude would provide increased incentives to lower the price of crude. I believe it would tend to establish more crude markets which would increase the competitiveness of that part of the industry.

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Divestiture of some refining assets or complete divestiture of refining assets would make the major oil companies both net sellers of crude and net buyers of gasoline. If the majors were dependent on the refining segment as their customers and suppliers, that would probably open up a great deal more competition in the oil industry.

Divesture of marketing facilities in many respects is the least attractive alternative, but there are advantages that might possibly be gained by that type of approach.

Divestiture of the crude would also require divestiture of the pipelines which contribute a great deal to the control that is exercised at that stage of the industry.

Senator McINTYRE. Page 3 of your statement, you indicate one effect of the supply shortage has been a sharp increase in the profits of the major oil companies.

In your investigation, have you developed any evidence indicating that the major companies are taking advantage of this shortage to limit competition and increase their profits?

Mr. WARD. At this time our investigation is not at a point where I could reach that conclusion.

Senator McINTYRE. From your statement I get the impression that if the independent marketing segment of the oil industry is severely damaged or destroyed that the consumer will be the ultimate victim; does this mean that the major oil companies do not engage in price competition among themselves?

If so, isn't it an antitrust violation in and of itself?

Mr. WARD. The independent marketers are the originators of much of the price competition in the retail markets for gasoline. The majors naturally respond to that, and from time to time they may originate price competition themselves.

I think some of the pricing systems that are in effect in the United States seem to stabilize prices in a way that is questionable under the antitrust laws. But the primary problem that we face now is the preservation of the independent marketers, the preservation of the competitive influence they exert. I think, if they were not to exert that influence, the consumer certainly would pay a good deal more for gasoline.

Senator McINTYRE. Several independent marketers have urged that the FTC during this shortage period, develop a type of program—some type so as to closely monitor competition and supply at the wholesale and retail level. So, I wonder, is your agency considering developing a task force that would be able to move swiftly to correct any competitive imbalances that develop during this shortage period?

Mr. WARD. I would have to reply in the negative. We have a large staff of lawyers and economists working on the oil investigation now. I do not have sufficient staff resources to create that kind of a task force.

Senator McINTYRE. You are aware, I am sure, that a voluntary allocation program was announced yesterday by the administration in an attempt to insure that needed supplies of petroleum products can be obtained during this shortage period.

Do you feel that a voluntary allocation system will work or will it be necessary to make it mandatory?

On page 9 of your statement you indicate that the major oil companies have in the past refused to cooperate in your agency's examina-

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tion of competition within the oil industry. If they refused to do so, why would we have any reason to believe they would cooperate with a voluntary allocation program?

Mr. WARD. I am not prepared to say, Senator, that the oil companies would not cooperate. Certainly, I would think it wise to have the contingency plan ready if cooperation is not forthcoming.

Senator MCINTYRE. Thank you.

Senator Proxmire.

Senator PROXMIRE. Mr. Ward, I understand you resigned from the position as Director of the Bureau of Competition?

Mr. WARD. Yes.

Senator PROXMIRE. You are leaving the Government when?

Mr. WARD. May 25.

Senator PROXMIRE. You only have a couple of weeks?

Mr. WARD. Yes.

Senator PROXMIRE. The reason I ask is at the bottom of page 1 you say "The Commission has not determined whether competition among oil companies has been restrained by any individual company or group of companies and I am not here to suggest that such charges are likely."

Now give me your personal feelings. You are not going to be the head of this organization for very long. I take it you are not going to be the new secretary of some of these Cabinet offices that are coming up so fast.

Mr. WARD. That really is a very difficult question for several reasons, but the primary reason why I cannot indicate my personal opinion is that my knowledge of the investigation is a good deal less than the knowledge that my colleagues have. I am generally aware of the facts that are being uncovered. Certainly, the present supply situation looks as though the entire brunt of the shortage will fall on the price competitive segment. That indicates there are serious competitive problems in the industry. Whether there will be a sufficient basis for antitrust action after the investigation has been completed, I cannot predict.

Senator PROXMIRE. You are accompanied by outstanding experts who have been hired by the Government in the Bureau of Competition. I presume the job of you and your advisers is to do your best to provide—as you say in your eloquent summation "Competition is one way to help to provide for reasonable prices in a free system."

Can I ask any of the other gentlemen who are here if you can give me any answer to this question of whether or not competition among the oil companies has been restrained by any individual companies or group of companies?

Mr. LIEDQUIST. I will say we really have to stand by Mr. Ward's opinion. We have not completed our evaluation of the material we have obtained about our file searches.

Senator PROXMIRE. How long has this investigation been going on?

Mr. WARD. Since October 1971 or November.

Senator PROXMIRE. This is very discouraging. This is May of 1973. That is 18 months. We are losing an eminent and experienced head of an agency. Somebody else is coming in. After your replacement has been in 18 months, is he going to tell us that they are still looking at it?

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Mr. WARD. Senator, I have to say, I am as discouraged as you are that these investigations take as long as they do. One thing I would have to mention is that the Bureau of Competition's total budget for all the work we do, involving not only the oil industry but all the other industries in the competitive sector is around $3 to $4 million.

Senator PROXMIRE. How many people do you have in the oil sector?

Mr. WARD. We have devoted a tremendous amount of resources to this investigation. I suppose at one time or another we have had 15 to 20 people working on it.

That is not full time. We have 60 cases that we have got to deal with that are pending. We have a number of other investigations.

Senator PROXMIRE. Can you give us an idea when it would be proper for Congress to expect a conclusion?

Mr. WARD. The Bureau will make its recommendation this summer, I believe, but I have to make one qualification. We have hearings that are going to begin in May. We are going to ask the oil companies questions. We intend to proceed with that as expeditiously as we can.

Senator PROXMIRE. If the report is not in by September 20, the last day of summer, any day after that you would be delinquent or tardy, is that fair?

Mr. WARD. I would say that is certainly right, you could say that.

Senator PROXMIRE. You say on page 4:

> Once arrived at such a point, remedial alternatives are extremely limited—direct government regulation or stringent antitrust relief, corporate divestiture or dissolution.

When you say "stringent antitrust relief," I presume you mean something like dissolution of the companies or at least the kind of things that you have outlined in terms of preventing integration and so forth, is that what you have in mind?

Mr. WARD. Yes, sir.

Senator PROXMIRE. That kind of thing on the basis of all of our experience does take many, many years to be able to achieve it. Can you think of any major industry where this has been done in the last 50 years?

Mr. WARD. Fifty years—I cannot recall. I know the Standard Oil case was in 1911. I do not know when the divestiture was accomplished.

Senator PROXMIRE. That is more than 60 years ago.

Mr. WARD. Something was done in the Alcoa case, the Aluminum case, in 1953.

Senator PROXMIRE. You would have to think long and hard and you are one of the real experts in this field.

Mr. WARD. I would say there have not been many major divestitures of this sort—but in that part of my remarks, I was talking about what would happen if the independent sector actually is destroyed.

Senator PROXMIRE. It sounds really pretty hopeless to rely on this, does it not, on the basis of experience? I am not so sure the $3 million is giving us anything.

Mr. WARD. It ought to be a great deal more.

Senator PROXMIRE. I do not know. We could waste $3 million. We could waste $15 million.

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Mr. WARD. When you contrast what we spend for antitrust enforcement with what we have to spend for regulation, when that sort of activity becomes necessary—

Senator PROXMIRE. I am all for enforcement. It just shows such meager results.

When I ask if there has been any major deconcentration in any major industry, you cannot cite any industry.

Mr. WARD. Under antimerger enforcement there certainly have been many divestitures.

Senator PROXMIRE. Is that the result of your agency or the result of the Justice Department?

Mr. WARD. Both. Both agencies have gotten divestiture of corporate assets under section 7 of the Clayton Act. What I talk about here in this part of my statement and also what may be appropriate remedy under the investigation we have ongoing is a slightly different type of corporate divestiture, that is true, but it certainly is not beyond the capability of the Federal Trade Commission or the courts in actions by the Justice Department.

Senator PROXMIRE. On page 3 you have a very interesting statement that had not occurred to me at all before. We have discussed the depletion allowance on the floor of the Senate. You state the "depletion allowance has supposedly encouraged crude oil exploration." Why did you put that "supposedly" in?

Do you think it has not?

Mr. WARD. I would answer that in two ways.

"Supposedly" encouraged is meant to question whether there was not other encouragement that was just as possible. Your colloquy with Dr. Dunlop suggested there were other ways of accomplishing that end than the depletion allowance. I think that there is a real question about whether it has worked. As a matter of fact, I would go the other way. I would say there is a strong presumption that you might have had more efforts at discovery of crude oil with normal market forces.

Senator PROXMIRE. You have no qualification at all, however on the next assertion with respect to the depletion allowance. You say, the depletion allowance "has, however, curtailed supply sources for independent refiners and marketers and encouraged high prices."

That surprises me. We have never argued that the depletion allowance has encouraged high prices or has had a limited effect on independent refiners and marketers. How does that work out?

You would think the depletion allowance would have the effect of encouraging independent wildcatters. They are the ones that the industry argue that have the principal incentive to explore more and to bring in more proven oil reserves. If you had a greater supply of oil, why wouldn't this definitely discourage high prices?

Mr. GLASSMAN. I think the first part of the answer is, we are dealing with an industry which has at least from the thirties had supply limit restrictions imposed on it by various Government agencies. So, in a sense, what you mean by the depletion allowance encouraging additional exploration is really hard to understand.

Senator PROXMIRE. You mean the State regulation of production in Texas and Louisiana and so forth where they only permitted pumping the oil for what—10 days a month?

Mr. GLASSMAN. Or at some percentage of capacity.

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Senator PROXMIRE. What does the depletion allowance have to do with that?

Mr. GLASSMAN. What I am saying is, I think it is important first to look at it in the environment of the other Government regulations and to wonder what it means to encourage extra production which tends to lower prices in an atmosphere where there are regulations, including pro-rata rationing and import quotas which operate in the opposite direction, namely, to restrict supply and push the price up.

Senator PROXMIRE. By itself the depletion allowance would have the effect of increasing supply, holding down prices and making supply more available to the entire industry, would it not if you have these other elements which you are absolutely right about, the import quotas and the pro-rata rationing which tends to hold the supply down.

Mr. GLASSMAN. Right, but the way things work, the depletion allowance we have argued, and it is in the statement at a later point, in fact, encourages the major oil companies to seek high crude prices because the effect of the depletion allowance is to reduce the tax burden at the crude level.

If you are an integrated firm, you can increase your raw material prices to your own refineries without any real effect on your overall profitability. What it means is you report your profits there at the crude level rather than the refinery level. But, because of the depletion allowance crude profits are taxed at a lower rate than refinery profits. It is to the advantage of major companies to get as high an input price as possible for crude oil, get their profits at the refinery level down and their profits at the crude level high.

If they are able in fact to do this, one of the effects is, of course, to reduce average margins at the refinery level and if refinery margins are reduced, then it is unlikely that independent refiners who do not have crude oil and cannot use the same tax methods will enter the industry. It is not profitable under those situations. That is why we said in a sense it is restrictive and exclusionary for the independent sector.

Senator PROXMIRE. Will you give me a memorandum, as detailed as you want, on this and supply it to the committee, because I think this is something that I have not heard explained before? It is very helpful. I cannot assimilate it and consider it in detail now. I do not want to take the time of the committee to do that.

Mr. WARD. I will submit it.

[The following information was subsequently received for the record:]

FEDERAL TRADE COMMISSION,
Washington, D.C., May 18, 1973.

Hon. WILLIAM B. PROXMIRE,
Chairman, Subcommittee on Financial Institutions, Committee on Banking, Housing and Urban Affairs, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: During the questioning following the statement of Alan S. Ward, Director of the Bureau of Competition of the Federal Trade Commission, before the Banking, Housing and Urban Affairs Committee, you asked about a particular claim regarding the impact of the oil depletion allowance upon crude oil prices and entry of refiners into the petroleum industry. The particular sentence of interest to you was: "The depletion allowance has sup-

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posedly encouraged crude oil exploration; it has, however, tended to discourage new entry at the refining level." Mr. Ward asked me to respond to your question and I suggested that the depletion allowance creates an incentive for major integrated oil firms to seek higher crude oil prices because of the tax advantage realized. I further argued that the higher the crude price attained by the majors, other things equal, the smaller will be refinery profit margins. This is so, of course, because crude oil is an important cost element in the manufacture of refined oil products. If profit margins are reduced, then the probability of entry into refining by a non-integrated firm is reduced. You asked me to supplement my answer by providing you with a "memorandum for the record."

I am very happy to comply with your wishes, and I have attached five copies of a short statement elaborating upon my oral presentation of May 11, 1973. I have, as you will see, attempted to reduce this problem to simple terms and have ignored many of the complexities that abound in the petroleum industry and which are peripheral to the issue at hand. I hope this elaboration is helpful to you. I appreciate the opportunity to be of assistance to you and to Senator McIntyre's Committee.

Sincerely yours,

MICHAEL L. GLASSMAN,
Chief, Division of Economic Evidence.

MEMORANDUM OF MICHAEL L. GLASSMAN, CHIEF, DIVISION OF ECONOMIC EVIDENCE, BUREAU OF ECONOMICS, FEDERAL TRADE COMMISSION

At the request of Senator Proxmire, I am submitting this memorandum as a supplement to the statement of Alan S. Ward, Director of the Bureau of Competition of the Federal Trade Commission. Mr. Ward delivered his statement to the Banking, Housing and Urban Affairs Committee of the United States Senate with Senator Thomas J. McIntyre, Chairman.

During the question of Mr. Ward, Senator Proxmire asked for an explanation of the statement, "The depletion allowance has supposedly encouraged crude oil exploration; it has, however, tended to discourage new entry at the refining level." Mr. Ward asked me to answer Senator Proxmire's question. Senator Proxmire asked me for a written elaboration of my oral response "for the record." The following is an amplification and elaboration of my answer.

The oil depletion allowance may directly encourage the exploration for and exploitation of domestic crude oil sources, but it may indirectly bring about results which limit the supply of refined petroleum products by restraining entry into the refining segment of the industry by nonintegrated firms. This result may occur because the oil depletion allowance creates an incentive to higher crude oil prices. Higher crude prices, however, mean higher costs and lower profit margins for nonintegrated refiners. But, lower profit rates imply less entry into the industry. Further, with fewer refiners, other things equal, the demand for crude oil will be reduced so that any incentive the oil depletion allowance created for the expansion of crude supply will be offset, at least in part.

To demonstrate these conclusions, let us posit a simplified world in which a few integrated firms control all domestic crude production and all refinery capacity. Suppose further that imports are eliminated by a quota or prohibitive tariff. Assume that the price and quantity exchanged of refined products is determined by supply and demand and that the price per barrel of refined product is $1.00 and the total demanded is 100 barrels. Assume the cost of recovering a barrel of crude oil is 30¢ and that the cost of refining a barrel of crude oil into a barrel of refined product is 40¢. Assume that the corporate income tax rate is 50 percent and that the oil depletion allowance is 20 percent of gross crude oil receipts. Finally, let us abstract from any quantitative limitation on the application of the depletion allowance and from the special depreciation provisions which apply to the oil industry. These abstractions do not invalidate the following arguments.

Assume that the oil companies in the first instance do not report income at each level for tax purposes. Suppose that the firms transfer crude oil from the well to the refinery at the true cost (30¢) of recovering that product. The combined profit and loss statement for the oil firms would look like Table 1.

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Table 1

Total revenue ($1×100 barrels)	$100
Crude recovery costs (30 cents×100 barrels)	30
Refining costs (40 cents×100 barrels)	40
Total costs	70
Gross income before taxes	30
Depletion allowance (20 percent of crude receipts)	6
Gross profits before income tax	24
Income tax (50 percent of profits before taxes)	12
Net profits after taxes	12
Real net profits (net profits plus depletion allowance)	$18

Rate of return on revenues—$18/100=18 percent.

Under this accoutning treatment the oil firms earn $18 of real profits, and after-tax profit as a percent of total revenue is 18 percent.

Now, however, asume that the oil firms choose a price of crude oil such that refinery profits taken separately are reduced to zero. In this model the firms are clearly free to do this since the crude oil price is simply a transfer or accounting price since no crude oil is sold in any market; it is simply transferred from one division to another by an integrated firm. Table 2 shows the profit and loss statements for the oil firms under these new assumptions.

Table 2

Crude oil division:	
Total revenues	$60
Cost of crude recovery	30
Gross income before taxes	30
Depletion allowance (20 percent of crude receipts)	12
Gross profits before taxes	18
Corporate income tax	9
Net profits after taxes	9
Refinery division:	
Total revenues	$100
Crude oil costs	60
Refining costs	40
Total costs	100
Gross income before taxes	0
Net profits after taxes	0
Real net profits (net profits plus depletion allowance)	21

Rate of return on revenues $21/$100=21 percent.

Under this accounting alternative the oil firms earn $21 of real after-tax profits, and after-tax profits as a percent of total revenue is 21 percent. Thus, it is clear that the oil depletion allowance creates an incentive to higher crude oil prices and smaller refinery margins. In the example provided, an increased crude price leads to a 16-2/3 percent increase in net profits.

Let us now in stages make our market more like the real world. First, assume that the integrated firms continue to own all domestic crude oil but only own one-half of the refineries. The remaining refineries can be termed "independents." The independents must buy crude oil from the majors. Surely the majors con-

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tinue to have a tax incentive to obtain high crude prices. However, the majors must not choose a crude price so high that the independents go out of business as a result of earning zero profits, for if independents shut down, the majors will lose customers for one-half of their crude production. Rather, the majors will select a crude oil price which permits refinery profit margins to be large enough to induce the present independents to stay in the market but will not be large enough to induce new independents to enter the industry, increase the supply of refined product, and cause prices and profits in the oil industry to decline. Thus, the oil depletion allowance induces a refinery margin "squeeze" which retards entry.

Finally, suppose that the majors no longer control the entire supply of crude oil and that independent crude producers would react to higher crude prices by exploring for new crude and by expanding output of previously discovered crude. The oil depletion allowance still provides an incentive to higher crude prices for the majors (and other crude producers for that matter), but will the majors be able to obtain a higher market price for crude oil? At first glance, the answer appears to be, "no." Higher crude prices wlil elicit greater supplies, which will, in turn, cause prices to fall to previous levels. However, the majors may be able to control crude supply and thereby bring about the desired higher prices. They may restrict crude supply by (1) restricting access to crude gathering lines and pipelines, (2) convincing state governments to impose prorationing programs, (3) persuading the U.S. Government to adopt strict import quotas, and/or (4) squeezing refinery margins so much that crude producers have only a limited market for their product. All of these strategies have been followed at one time or another by the majors in the real world. Therefore, apparently the majors *can* control crude supply and can realize higher crude prices.

It appears, then, that the depletion allowance has two impacts upon crude supply. First, it tends to encourage greater crude production at any given price since it constitutes a subsidy to crude oil production. Second, however, it creates an incentive to higher crude prices for tax reasons. But, in order to realize higher crude prices, the supply of crude oil must be restrained. Thus, the stimulus to greater crude oil exploration and production provided by the oil depletion allowance may be very small or virtually non-existent.

Senator PROXMIRE. In your statement you say "A recent estimate is that the cost of a new and efficient refinery would be $250 million." How big a refinery would that be?

Mr. WARD. Over 100,000 barrels a day. I cannot remember for sure. That was a recent statement by Mobil Oil Co.

Senator PROXMIRE. What would that mean in terms of the Nation's supplies?

How many barrels a day do we refine?

The staff here says 13 million barrels a day.

Mr. WARD. We said 15 million.

Senator PROXMIRE. That would be a very small percentage increase and it is $250 million.

Mr. WARD. Yes.

Senator PROXMIRE. I have been very concerned about this as I think all people who have looked at this at all have been.

The limit on refinery. What do you suggest we can do about that?

Mr. WARD. Removal of some of the artificial distortions of the marketplace which would allow the refining end of the business to make a profit more or less on its own rather than as part of an integrated operation might be very effective in encouraging the construction of new refineries.

There obviously are many problems—pollution problems ond capital cost. But the real problem about having any new independent refining capacity built is that the returns—and I think this has been

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testified to this week—the returns on that kind of investment have not been attractive enough to encourage construction.

Senator PROXMIRE. The only way to set that return more attractively is to let the price go up, is it not?

Mr. WARD. It may indeed be necessary for prices to go up to encourage construction of new refineries. I would have to admit that.

Senator PROXMIRE. You would have to be out of your mind otherwise to put up a refinery if you cannot get a better price.

Mr. WARD. But the present allocation of profit we think is artificial and it is partly artificial——

Senator PROXMIRE. The present what?

Mr. WARD. Allocation of profit in different segments of the industry.

The encouragement to take the profit at the crude level is at least partly because of governmental policy. That could be changed.

Senator PROXMIRE. The final question is on the last page, "In our efforts to assure efficient development and management of available energy resources, we must be attentive to the importance of preserving competition."

The immediate question that comes to mind of almost anyone looking at that is to say you have a lot of companies here, you do not have three or four as you have in the automobile company, you have 23 majors, you have got how many independents—hundreds, I guess, many independents at any rate, you say they are a very important element in the competition. Under these circumstances it just does not seem at least a prima facie case of monopoly.

Mr. WARD. I would have to revise those numbers a little bit, Senator. I think, if you look at particular markets, 23 majors do not account for over 65 percent of the refining capacity in the two petroleum districts that I mentioned. Eight companies do. Their percentage share is higher than 65 percent. Certainly, at the refining level you do not have hundreds of independents. I cannot give you the exact number. But it is a good deal smaller than that. In the crude area, you do have a greater number of independent units involved than you do at the refining level. But our studies indicate that the concentration of crude ownership, for example in Texas, rises to substantial levels.

One problem I have in responding completely to your question is that the availability of information on which we could make positive judgment has been very limited.

Senator PROXMIRE. This is because of lack of cooperation by the industry?

Mr. WARD. It is not information that is public and we have not gotten it yet. As soon as I have it, why I will be glad to give you an accurate, fully accurate report. But this is not an industry that is characterized by loose control.

Senator PROXMIRE. One other further matter which does not make a prima facie case: Senator Russ Long and others who are very eloquent and persuasive in defending the industry, argue that this is an industry in which the prices have not really gone up as much—at least they used to argue that—as much as prices have risen generally. The cost of living has gone up faster since 1950 or 1955 than

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the cost of oil. Have you made any attempt to determine the rate at which prices have gone up in this industry compared to others?

Mr. WARD. We have not made any extensive study. Certainly, within the last few years, prices in this industry have increased substantially.

Senator PROXMIRE. I would think that would be one of the big elements and an element that would be relatively easy to get the figures on. You could get them from the Census, could you not. You could make a phone call and in 24 hours you would have them in front of you. I would think this would be a consideration and a very important one in assessing the necessity for action as far as competition is concerned.

There are supply problems that are going to force a higher price. As far as competition is concerned, you have had roughly the same situation over the past 20 years and the price has been more stable here than it has in some of these other areas.

Mr. WARD. That would not be the only basis on which a judgment could be made. In other words, this industry might have achieved much greater efficiencies than some other industries. It might have been able to save money.

Senator PROXMIRE. But to get a balanced and fair picture, you would want to take a look at that, too.

Mr. WARD. Yes.

Senator PROXMIRE. Thank you.

Senator MCINTYRE. Thank you, Mr. Ward and your associates for coming here today to help us. I appreciate it very much. Unless there is objection, we will hold the hearing record open for a period of 10 days until May 21, 1973.

With that we conclude these hearings.

[At 12:45 p.m. the committee adjourned.]

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APPENDIX

ADDITIONAL STATEMENTS AND DATA

THE WHITE HOUSE, *April 18, 1973.*

EXECUTIVE ORDER 11712—SPECIAL COMMITTEE ON ENERGY AND NATIONAL ENERGY OFFICE

This Administration is determined to continue to develop a more comprehensive, integrated national energy policy to meet the emerging energy challenge. Many steps have been taken toward that end, including measures to increase domestic production of all forms of energy without violating our natural environment, to conserve the energy we produce, to better utilize our current resources, and to use our vast scientific and technological capacities to develop new sources and new forms of energy. I have now determined that in order to protect and promote the interests of the people of the United States as energy users, and to coordinate the policies of the executive branch in this area, it is necessary to establish a Special Committee on Energy and a National Energy Office.

Now, therefore, by virtue of the authority vested in me as President of the United States by the Constitution and statutes of the United States, it is hereby ordered as follows:

SPECIAL COMMITTEE ON ENERGY

SECTION 1. Three Assistants to the President, John D. Ehrlichman, Henry A. Kissinger, and George P. Shultz, shall constitute a Special Committee on Energy. The Director of the National Energy Office shall perform his functions under this order in accordance with policies and guidance provided him by the Special Committee.

ESTABLISHMENT OF THE OFFICE

SEC. 2. There is hereby established in the Executive Office of the President a National Energy Office. The Office shall be under the immediate supervision and direction of a Director who shall be designated by the President. The Director shall report to the President through the Special Committee on Energy.

FUNCTIONS OF THE DIRECTOR

SEC. 3. (a). The Director shall advise the President, through the Special Committee on Energy, with respect to all Federal energy programs, activities, and related matters.

(b) The Director shall recommend policies and guidelines pertaining to energy matters for all energy related programs within the Executive Branch. To the maximum extent permitted by law, Federal officers and Federal departments and agencies shall cooperate with the Director in carrying out his functions under this Order.

(c) In addition, the Director shall—

(1) assure the development of comprehensive plans and programs to insure the availability of adequate and dependable supplies of energy;

(2) assure that Federal energy policy is properly coordinated;

(3) evaluate all such programs;

(4) advise the heads of departments and agencies of his findings and recommendations, when appropriate;

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(5) make recommendations to the Director of the Office of Management and Budget concerning proposed funding of energy programs and activities;

(6) constitute a clearinghouse for the prompt consideration of energy problems brought to his attention by Federal departments and agencies and by other public and private entities, organizations, agencies, or individuals; and

(7) report, through the Special Committee on Energy, from time to time, to the President concerning the foregoing.

RICHARD NIXON.

THE WHITE HOUSE, *April 18, 1973.*

MODIFYING PROCLAMATION 3279, RELATING TO IMPORTS OF PETROLEUM AND PETROLEUM PRODUCTS, PROVIDING FOR THE LONG-TERM CONTROL OF IMPORTS OF PETROLEUM AND PETROLEUM PRODUCTS THROUGH A SYSTEM OF LICENSE FEES AND PROVIDING FOR GRADUAL REDUCTION OF LEVELS OF IMPORTS OF CRUDE OIL, UNFINISHED OILS AND FINISHED PRODUCTS, 4210

BY THE PRESIDENT OF THE UNITED STATES OF AMERICA
A PROCLAMATION

The Chairman of the Oil Policy Committee maintains a constant surveillance of imports of petroleum and its primary derivatives in respect to the national security.

He informs me that, in the course of his surveillance, he has reviewed the status of imports under Proclamation 3279, as amended, of petroleum and its primary derivatives in their relation to the national security and that further Presidential action under section 232 of the Trade Expansion Act of 1962, as amended, is required.

He recommends, after consultation with the Oil Policy Committee, that the method of adjusting imports of petroleum and petroleum products be modified by immediately suspending tariffs on imports of petroleum and petroleum products and by shifting to a system whereby fees for licenses covering such imports shall be charged and whereby such fees may be adjusted from time to time, as required in order to discourage the importation into the United States of petroleum and petroleum products in such quantities or under such circumstances as to threaten to impair the national security; to create conditions favorable, in the long range, to domestic production needed for projected national security requirements; to increase the capacity of domestic refineries and petro-chemical plants to meet such requirements; and to encourage investment, exploration, and development necessary to assure such growth.

The Chairman informs me further, that the levels of imports heretofore fixed in calendar year 1973, with respect to Districts I–IV, District V, and Puerto Rico, reflect application of the established policy that for each such area the maximum level of imports shall be the difference between estimated supply and estimated demand, and that he finds that such levels of imports should be continued to be permitted without payment of the fees otherwise provided for in this proclamation.

I agree with the recommendations of the Chairman, and I deem it necessary and consistent with the national security objectives of the Trade Expansion Act of 1962, as amended, that provision be made for a gradual transition from the existing quota method of adjusting imports of petroleum and petroleum products to a long-term program for adjustment of imports of petroleum and petroleum products through the suspension of existing tariffs and the institution of a system of fees applicable to imports of crude oil, unfinished oils, and finished products, which fees may be adjusted from time to time.

Now, therefore, I, Richard Nixon, President of the United States of America, acting under and by virtue of the authority vested in me by the Constitution and laws of the United States, including section 232 of the Trade Expansion Act of 1962, do hereby proclaim that, effective as of this date, that portion of Proclamation 3279, as amended, beginning with section 1 thereof, is hereby amended to read as follows:

"SEC. 1(a) In Districts I–IV, in District V, and in Puerto Rico, no crude oil, unfinished oils, or finished products may be entered for consumption or with-

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drawn from warehouse for consumption, except (1) by or for the account of a person to whom a license has been issued by the Secretary of the Interior pursuant to an allocation made to such person by the Secretary in accordance with regulations issued by the Secretary, and such entries or withdrawals may be made only in accordance with the terms of such license, or (2) as authorized by the Secretary pursuant to paragraph (b) of this section, or (3) as to finished products, by or for the account of a department, establishment, or agency of the United States, which shall not be required to have such a license but which shall be subject to the provisions of paragraph (c) of this section, or (4) as provided in paragraph (c) of this section, or (5) as otherwise provided in this proclamation.

(b) The Secretary of the Interior may, in his discretion, authorize entries, without allocation or license, of small quantities of crude oil, unfinished oils, or finished products.

(c) In Districts I–IV, District V, and in Puerto Rico, no department, establishment, or agency of the United States shall without prior payment of the fees provided for in this proclamation, import finished products in excess of the respective allocations made to them by the Secretary of the Interior. Such allocations shall, except as otherwise provided in this proclamation, be within the maximum levels of imports established in section 2 of this proclamation:

(d) The Secretary may, by regulation, provide that no allocation or license shall be required in connection with the transportation to the United States by pipeline through a foreign country of crude oil, unfinished oils, or finished products produced in the customs territory of the United States or, in the event of commingling with foreign oils of like kind and qualities incidental to such transportation, of quantities equivalent to the quantities produced in and shipped from such customs territory."

SEC. 2(a) Except as otherwise provided in this proclamation, the maximum level of imports, from sources other than Canada and Mexico which may be made without prior payment of the fees provided in this proclamation, of crude oil, unfinished oils, and finished products (other than residual fuel oil to be used as fuel) shall be:

(1) for Districts I–IV, 1,992,000 average barrels per day per calendar year: *Provided*, That, in addition to the foregoing, there may be imported into District I an average of 50,000 barrels per day of No. 2 fuel oil, manufactured in the Western Hemisphere from crude oil produced in the Western Hemisphere under allocations made by the Secretary, pursuant to regulations of the Secretary, to deepwater terminal operators currently receiving allocations and who do not have crude oil import allocations into Districts I–IV; *Provided Further*, That, whenever the Chairman of the Oil Policy Committee finds that, because of supply, price, or other considerations, the requirement that No. 2 fuel oil be manufactured in the Western Hemisphere from crude oil produced in the Western Hemisphere is unduly restricting the availability of such oil for importation into District I and is not required for the national security, he shall so advise the Secretary who shall then suspend such requirement by appropriate regulation. No such suspension shall be renewed except upon a new finding by the Chairman as required by the preceding sentence; *Provided Further*, That, the Secretary may, by regulation, provide that a holder of an allocation for the importation of No. 2 fuel oil may import crude oil produced in the Western Hemisphere in lieu of No. 2 fuel oil, barrel for barrel, and exchange such crude oil for No. 2 fuel oil.

(2) for District V, 670,000 average barrels per day per calendar year.

(3) for Puerto Rico 227,221 average barrels per day per year commencing April 1, 1973; *Provided*, That no person who manufactures in Puerto Rico No. 2 fuel oil from crude oil produced in the Western Hemisphere shall incur a reduction of an allocation or be deemed to have violated a condition of an allocation by reason of a shipment of such oil to a person who holds an allocation of imports of No. 2 fuel oil into District I and who does not have a crude oil import allocation into District I; *Provided Further*, That, this limitation shall not apply to long-term allocations of imports into Puerto Rico.

(4) for District I, 2,900,000 average barrels per day per year, commencing April 1, 1973, of residual fuel oil to be used as fuel.

(5) for Districts II–IV, 42,000 average barrels per day per calendar year of residual fuel oil to be used as fuel.

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(6) for District V, 75,600 average barrels per day per calendar year of residual fuel oil to be used as fuel.

(b) Imports of asphalt, ethane, propane, and butanes shall not be subject to the levels established in this proclamation nor shall any allocation or license be required for their importation.

(c) Crude oil may be imported into District I to be topped for use as burner fuel under such conditions as the Secretary may, by regulation, provide. The quantities of crude oil, unfinished oils, and finished products that may be imported into the United States under the provisions of this proclamation shall not be reduced by reason of imports of crude oil used as fuel under this paragraph.

(d) (1) Except as otherwise provided in this proclamation, the maximum levels of imports from Canada of crude oil and unfinished oils to which license fees are not applicable shall be:

(i) for Districts I–IV, 960,000 average barrels per day per calendar year; *Provided*, That, the Secretary may, within the limits established by subparagraph (1) of paragraph (a) of this section, increase the quantity of crude oil, unfinished oils, and finished products which may be imported from Canada so long as such increase is consonant with the purposes of this proclamation.

(ii) for District V, 280,000 average barrels per day per calendar year; *Provided*, That, the Secretary may, within the limits established by subparagraph (1) of paragraph (a) of this section, increase the quantity of crude oil, unfinished oils, and finished products which may be imported from Canada so long as such increase is consonant with the purposes of this proclamation.

(2) Entries for consumption of imports from Canada by pipeline may be made until midnight January 15 of the calendar year following the calendar year in which any license authorizing such imports from Canada was issued.

(e) Except as otherwise provided in this proclamation, the maximum level of imports from Mexico of crude oil produced in Mexico and unfinished oils and finished products produced in Mexico wholly from Mexican crude oil shall be 32,500 average barrels per day per calendar year.

(f) The level established, and the total demand referred to, in this section do not include free withdrawals by persons pursuant to section 309 of the Tariff Act of 1930, as amended (19 U.S.C. 1309), or petroleum supplies for vessels or aircraft operated by the United States between points referred to in said section 309 (as to vessels or aircraft, respectively) or between any point in the United States or its possessions and any point in a foregin country."

"SEC. 3(a) Effective May 1, 1973, the Secretary shall, by regulation, establish a system of fees for licenses issued under allocations of imports of crude oil, unfinished oils, and finished products, over the above levels of imports established by section 2 of this proclamation. Such regulations shall require, among other appropriate provisions, that such fees shall be:

FEE SCHEDULE

[Cents per barrel]

	May 1, 1973	Nov. 1, 1973	May 1, 1974	Nov. 1, 1974	May 1, 1975	Nov. 1, 1975
Crude	10½	13	15½	18	21	21
Motor Gasoline	52	54½	57	59½	63	63
All other finished products and unfinished oils (except ethane, propane, and butanes)	15	20	30	42	52	63

Provided, That, license fees paid for imports of crude oil or unfinished oils will be refunded to the extent that such crude oils or unfinished oils have been incorporated into petro-chemical or finished products subsequently exported or that asphalt as defined in this proclamation was produced from the imported feedstocks.

(b) Except for allocation and licenses to which the license fee is not applicable, applications for allocations of imports of crude oil, unfinished oils,

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or finished products shall be accompanied by the applicant's certified check or a cashier's check payable to the order of the Treasurer of the United States in the appropriate amount chargeable pursuant to this section. Applications not acompanied by a certified or cashier's check in the amount required shall not be considered.

(c) (1) All monies received by the Secretary under the terms of paragraph (b) of this section shall be held by the Secretary of the Interior in a suspense account and may be drawn upon by the Secretary for the payment of any refunds of refundable license fees and for payments to Puerto Rico of sums collected by way of license fees for imports into Puerto Rico. Balances remaining in such suspense account not required for payment hereinabove provided shall be deposited at the end of each fiscal year in the Treasury of the United States and credited to miscellaneous receipts.

(2) Refunds pursuant to subparagraph (1) of paragraph (c) of this section shall be made without interest."

"SEC. 4(a) The Secretary of the Interior is hereby authorized to issue regulations for the purpose of implementing this proclamation.

(b) (1) With respect to the allocation of imports of crude oil and unfinished oils into Districts I–IV and into District V, such regulations shall provide for a fair and equitable distribution of allocations of imports for which license fees are not applicable among eligible persons having refinery capacity in relation to refinery inputs or in relation to storage capacities of such allocation holders. The Secretary may, by regulation, also provide for the making of allocations, of imports for which license fees are not applicable, of crude oil and unfinished oils into Districts I–IV and into District V to persons having petrochemical plants in these districts in relation to the outputs of such plants or in relation to input to such plants. Provision may be made in the regulations for the making of such allocations on the basis of graduated scales. Notwithstanding the levels prescribed in section 2 of this proclamation, the Secretary may also by regulation make such provisions as he deems consonant with the objectives of this proclamation for the making of allocations of imports of crude oil and unfinished oils to which the license fee is not applicable into Districts I–IV and into District V to persons who manufacture from crude oil and unfinished oils and who export finished products and petrochemicals, subject to such designations as the Secretary may make. Notwithstanding the levels established in section 2 of this proclamation the Secretary may make allocations to which license fees shall not be applicable to new, expanded, or reactivated refinery capacity and petrochemical plants for a period of five years from the date such facility comes on stream. Such allocations shall not exceed 75 percent of estimated refinery inputs or the percentage of petrochemical plant inputs applicable.

(2) Such regulations shall provide for the allocations of imports with respect to which license fees are not applicable of crude oil and unfinished oils into Puerto Rico among persons having refinery capacity in Puerto Rico in the calendar year 1964 on the basis of the allocation of crude and unfinished oils received by such persons for the allocation period commencing April 1, 1973; *Provided*, That, in respect of imports for which license fees are applicable, license fees paid for imports of crude oil and unfinished oils into Puerto Rico will be refunded to the extent that such crude oil or unfinished oils have been incorporated into finished products consumed in Puerto Rico or petrochemicals or finished products exported therefrom.

(3) Except for crude oil or unfinished oils imported under license or licenses for which a fee has been charged, or pursuant to specific relief granted pursuant to section 5, such regulations shall require that imported crude oil and unfinished oils be processed in the licensee's refinery or petrochemical plant, except that exchanges for domestic crude or unfinished oils may be made, if otherwise lawful, if effected on a current basis and reported in advance to the Secretary, and if the domestic crude or unfinished oils are processed in the licensee's refinery or petrochemical plant.

(4) With respect to the allocation of imports of finished products (other than residual fuel oil to be used as fuel) in respects of which license fees are not applicable into Puerto Rico, such regulations shall provide, to the extent possible for a fair and equitable distribution of imports of such finished products among persons who were importers of such finished products into

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Puerto Rico during all or part of the calendar year 1958, or such higher level as the Secretary may have determined to be required to meet demand in Puerto Rico for finished products that would not otherwise have been met, during the calendar year 1973.

(5) With respect to the allocation of imports to which license fees are not applicable of residual fuel oil to be used as fuel in Puerto Rico, such regulations shall, to the extent possible, provide for a fair and equitable distribution of imports of residual fuel oil to be used as fuel among persons who were importers of that product into Puerto Rico during all or part of the calendar year 1958. In addition, the Secretary by regulation may, to the extent possible, provide for a fair and equitable distribution of imports of residual fuel oil to be used as fuel, the maximum sulphur content of which is acceptable to the Secretary (i) among persons who are in the business in the respective districts or Puerto Rico of selling residual fuel oil to be used as fuel and who had inputs of that product to deepwater terminals located in the respective districts or Puerto Rico and (ii) among persons who are in the business in the respective districts or Puerto Rico of selling residual fuel oil to be used as fuel and who have throughput agreements (warehouse agreements) with deepwater terminal operators. With respect to the allocation of imports into District I of residual fuel oil to be used as fuel, such regulations shall, to the extent possible, provide for a fair and equitable distribution of imports of residual fuel oil to be used as fuel (i) among persons who are in the business in District I of selling residual fuel oil to be used as fuel and who have had inputs of that product to deepwater terminals located in District I, and (ii) among persons who are in the business in District I of selling residual fuel oil to be used as fuel and have throughput agreements (warehouse agreements) with deepwater terminal operators. With respect to the allocation of imports of residual fuel oil to be used as fuel into District I, Districts II–IV, District V, and Puerto Rico, such regulations shall also provide, to the extent possible, for the granting of allocations of imports of residual fuel oil to be used as fuel in accordance with procedures established pursuant to section 5 of this proclamation.

(c) Such regulations may provide for the revocation or suspension by the Secretary of any allocation or license on grounds relating to the national security, or the violation of the terms of this proclamation, or of any regulation, allocation, or license issued pursuant to this proclamation.

(d) For the balance of the calendar year 1973, notwithstanding the levels established in section 2 of this proclamation and the provisions of paragraph (b) of this section, the Secretary may provide by regulation for additional allocations of imports in respect of which license fees are not applicable of crude oil and unfinished oils to persons in District I–IV, and District V who manufacture in the United States residual fuel oil to be used as fuel, the maximum sulphur content of which is acceptable to the Secretary, in consultation with the Secretary of Health, Education and Welfare. These allocations to each of such persons shall not exceed the amount of such residual fuel oil manufactured by that person."

"SEC. 5(a) The Secretary of the Interior is authorized to provide for the establishment and operation of an Appeals Board to consider petitions by persons affected by the regulations issued pursuant to this proclamation. The Appeals Board shall be comprised of a representative each from the Departments of the Interior, Justice, and Commerce to be designated respectively by the heads of such Departments.

(b) The Appeals Board may be empowered, subject to the general direction of the Chairman of the Oil Policy Committee, (1) within the limits of the maximum levels of imports established in this proclamation, to modify on the grounds of error any allocation made to any person under such regulations; (2) without regard to the limits of the maximum levels of imports established in this proclamation, (i) to modify, on the grounds of exceptional hardship, any allocation with respect to which license fees are not applicable made to any person under such regulations; (ii) to grant allocations of imports to which license fees will not be applicable of crude oil and unfinished oils in special circumstances to persons with importing histories who do not qualify for allocations under such regulations; and (iii) to grant allocations of imports, to which license fees shall not be applicable, of finished products on the grounds of exceptional hardship; and to assure that adequate sup-

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plies of crude oil, unfinished oils, and finished products are made available to independent refiners or established marketers who are experiencing exceptional hardship or in emergencies requiring, in its judgment, the grant of allocations to them, and (3) to review the revocation or suspension of any allocation or license. The Secretary may provide that the Board may take such action on petitions as it deems appropriate and that the decisions by the Appeals Board shall be final.

(c) Effective April 30, 1980, the jurisdiction of the Oil Import Appeals Board shall expire."

"SEC. 6. Persons who apply for allocations of crude oil, unfinished oils, or finished products, persons to whom such allocations have been made, and persons who hold such allocations shall furnish to the Secretary of the Interior such information and shall make such reports as he may require, by regulations or otherwise, in the discharge of his responsibilities under this proclamation."

"SEC. 7 The Chairman of the Oil Policy Committee shall provide policy direction, coordination, and surveillance of the oil import control program, including approval of regulations issued pursuant to this proclamation. He shall perform those functions after receiving the advice of the Oil Policy Committee and in accordance with guidance from the Assistant to the President with responsibility in the area of economic affairs."

"SEC. 8 The Oil Policy Committee shall consist of the Deputy Secretary of the Treasury, as Chairman, and the Secretaries of State, Defense, Interior, and Commerce, the Attorney General, and the Chairman of the Council of Economic Advisers, as members. The President may, from time to time, designate other officials to serve as members of the Committee. The Chairman may create subcommittees of the Committee to study and report to the Committee concerning specified subject matters."

"SEC. 9 The Oil Policy Committee shall consult with and advise the Chairman on oil import policy, including the operation of the control program under Proclamation 3279, as amended, and on recommendations for changes in the program by the issuance of new proclamations with respect to it, or otherwise."

"SEC. 10 The Chairman of the Oil Policy Committee shall from time to time and as, in his judgment is required, review the status of imports of petroleum and its primary derivatives in respect to the national security, and, after consultation with the Oil Policy Committee, he shall inform the President of any circumstances which, in the Chairman's option, might indicate the need for further Presidential action under section 232 of the Trade Expansion Act of 1962 (19 U.S.C. 1862), as amended. In the event prices of crude oil for its products or derivatives should be increased after the effective date of this proclamation, beyond the limits contemplated by the Cost of Living Council, such review may include a determination as to whether such increase or increases are necessary to accomplish the national security objectives of section 232 of the Trade Expansion Act of 1962, as amended, and this proclamation."

"SEC. 11 Annually, beginning May 1, 1974, the maximum levels of imports subject to allocation and license, to which license fees shall not be applicable, shall be reduced as follows:

For the year commencing May 1, 1974, the maximum levels of such imports shall be ninety percent (90%), in barrels per day, of the levels established during the calendar year 1973;

For the year commencing May 1, 1975, the maximum levels of such imports shall be eighty percent (80%), in barrels per day, of the levels established during the calendar year 1973;

For the year commencing May 1, 1976, the maximum levels of such imports shall be sixty-five percent (65%), in barrels per day, of the levels established during the calendar year 1973;

For the year commencing May 1, 1977, the maximum levels of such imports shall be fifty percent (50%), in barrels per day, of the levels established during the calendar year 1973;

For the year commencing May 1, 1978, the maximum levels of such imports shall be thirty-five percent (35%), in barrels per day, of the levels established during the calendar year 1973;

For the year commencing May 1, 1979, the maximum levels of such imports shall be twenty percent (20%), in barrels per day, of the levels established during the calendar year 1973.

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Effective April 30, 1980, the system of issuing allocations and licenses not subject to license fee shall be abolished;

Provided, That, with respect to any allocation period expiring prior to May 1, 1974, such allocation period shall be extended to April 30, 1974, and the Secretary shall issue appropriate regulations to issue additional oil import licenses to reflect such extension.

"SEC. 12(a) Commitments and obligations contained in long-term allocations heretofore made of imports of crude oil into Puerto Rico shall be unimpaired by this proclamation or regulations issued thereunder.

(b) Commitments and obligations contained in that certain allocation made to Hess Oil and Chemical Corporation of imports of finished products into Districts I–IV, dated December 12, 1967, effective January 1, 1968, shall be unimpaired by this proclamation or regulations issued thereunder."

"SEC. 13 The Secretary of the Interior may delegate, and provide for successive redelegation of, the authority conferred upon him by this proclamation. All departments and agencies of the Executive Branch of the Government shall cooperate with and assist the Secretary of the Interior in carrying out the purposes of this proclamation."

"SEC. 14 Executive Order 10761 of March 27, 1958, entitled "Government Purchases of Crude Petroleum and Petroleum Products" (23 F.R. 2067) is revoked."

"SEC. 15 As used in this proclamation:

(a) "Person" includes an individual, a corporation, firm, or other business organization of legal entity, and an agency of a state, territorial or local government, but does not include a department, establishment, or agency of the United States.

(b) "District I" means the states of Maine, New Hampshire, Vermont, Massachusetts, Connecticut, Rhode Island, New York, New Jersey, Pennsylvania, Maryland, Delaware, West Virginia, Virginia, North Carolina, South Carolina, Georgia, Florida, and the District of Columbia.

(c) "Districts II–IV" means all of the states of the United States except those states within District I and District V.

(d) "Districts I–IV" means the District of Columbia and all of the states of the United States except those states within District V.

(e) "District V" means the states of Arizona, Nevada, California, Oregon, Washington, Alaska, and Hawaii.

(f) "Crude oil" means a mixture of hydrocarbons that existed in natural underground reservoirs and which is liquid at atmospheric pressure after passing through surface separating processes and does not include natural gas products. It includes the initial liquid hydrocarbons produced from tar sands, gilsonite, and oil shale.

(g) "Finished products" means any one or more of the following petroleum oils, or a mixture or combination of such oils, or any component or compnents of such oils which are to be used without further processing by any one or more of the processes described in subparagraphs (1) through (3) of paragraph (h) of this section, and which, as of January 1, 1973, under the Tariff Schedules of the United States, were not subject to a duty of more than one cent ($0.01) per pound of the hydrocarbons therein contained:

(1) The term "liquefied gases" means the following liquefied or liquefiable gases, namely, ethane, propane, butanes, ethylene, propylene, and butylenes which are derived by refining or other processing of natural gas, crude oil, or unfinished oils.

(2) "Gasoline" means a refined petroleum distillate, including naphtha, jet fuel or other petroleum oils (but not isoprene or cumene having a purity of 50 percent or more by weight, or benzene which meets the ASTM distillation standards for nitration grade) derived by refining or processing crude oil or unfinished oils, in whatever type of plant such refining or processing may occur, and having a boiling range at atmospheric pressure from 80° to 400°F.

(3) "Kerosene" means any jet fuel, diesel fuel, fuel oil or other petroleum oils derived by refining or processing crude oil or unfinished oils, in whatever type of plant such refining or processing may occur, which has a boiling range at atmospheric pressure from 400° to 550°F.

(4) "Distillate fuel oil' means any fuel oil, gas oil, topped crude oil, or other petroleum oils, derived by refining or processing crude oil or unfinished

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oils, in whatever type of plant such refining or processing may occur, which has a boiling range at atmospheric pressure from 550° to 1200°F.

(5) "Residual fuel oil" means a petroleum oil, which is (i) any topped crude or viscous residuum of crude or unfinished oils or one or more of the petroleum oils defined in subparagraphs (2) through (4) of this paragraph (g), which has a viscosity of not less than 45 seconds Saybolt Universal at 100°F. to be used as fuel without further processing other than by mechanical blending or (ii) crude oil to be used as fuel without further processing other than by blending by mechanical means.

(6) "Asphalt" means a solid or semi-solid cementitious crude oil or derivative of crude oil, 50 percent or more of the constituents of which are bitumins, which is not to be used as fuel and which is to be used without further processing except airblowing or blending by mechanical means.

(7) "Lubricating oils" means any lubricant containing more than 50 percent by volume of refined petroleum distillates or specially treated petroleum residuum.

(8) "Natural gas products" means liquids (under atmospheric conditions), including natural gasoline, which are recovered by process of absorption, adsorption, compression, refrigeration, cycling, or a combination of such processes, from mixtures of hydrocarbons that existed in a reservoir and which, when recovered and without processing in a refinery or other plant, fall within any of the definitions of products contained in clauses (2) through (4) of this paragraph (g).

(h) "Unfinished oils" means one or more of the petroleum oils listed in clauses (1) through (4) and clause (8) of paragraph (g) of this section or a mixture or combination of such oils, or any component or components of such oils, which are to be further processed in one or more of the following ways:

(1) By distillation with a resulting yield of at least two distinct finished products or unfinished oils, two of which must be equal to not less than 10 percent of the total charge of such imported unfinished oils to a distillation unit. Different grades or specifications of finished products or unfinished oils will not constitute distinct finished products or unfinished oils for purposes of this subparagraph. Distillation of petroleum oils which have been reconstituted by blending of two or more finished products or unfinished oils does not constitute processing for the purposes of this subparagraph.

(2) By catalytic or thermal conversion in process units such as alkylation, coking, cracking, hydrofining, hydrodesulfurization, polymerization, isomerization, dehydrogenation, or refining.

(3) By physical separation established by means of solvent dewaxing, solvent deasphalting, solvent extraction, or extractive distillation.

(i) As used in paragraphs (g) and (h) of this section, the term "petroleum oil" includes only hydrocarbons derived from crude oil or natural gas.

(j) The term "imports from Canada" as used in this proclamation, means entries for consumption or withdrawals from warehouse for consumption of the following items which have been transported into the United States from Canada, by overland means (pipeline, rail, or other means of overland transportation) or over waterways other than ocean waterways, to-wit: crude oil produced in Canada, unfinished oils which have been derived from crude oil or natural gas produced in Canada, and finished products which have been produced in Canada from crude oil produced in Canada.

(k) The expression "long-term allocation" means:

(1) That certain allocation made to Commonwealth Oil Refining Company, Inc., of imports of crude and unfinished oils into Puerto Rico dated May 10, 1968—effective January 1, 1968 (as amended).

(2) That certain allocation made to Phillips Petroleum Company of imports of unfinished oils into Puerto Rico—dated December 23, 1965—effective January 1, 1966 (as amended).

(3) That certain allocation made to Sun Oil Company of imports of crude oil into Puerto Rico—effective April 18, 1968 (as amended).

(4) That certain allocation made to Union Carbide Corporation of imports of crude oil and unfinished oils into Puerto Rico—dated April 19, 1968—effective April 19, 1968.

(5) That certain allocation made to Hess Oil and Chemical Corporation of imports of finished products into Districts I–IV—dated December 12, 1967—

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effective January 1, 1968 (Hess Oil and Chemical Corporation now Amerada-Hess).

(1) The term "imports" includes both entry for consumption and withdrawal from warehouse for consumption."

"SEC. 16 Effective as of May 1, 1973, tariffs upon imports of petroleum and petroleum products listed in Schedule 4, Part 10—"Petroleum, natural gas, and products derived therefrom" of the Tariff Schedules of the United States shall be and are suspended."

In witness whereof, I have hereunto set my hand this 18th day of April, in the year of our Lord nineteen hundred seventy-three and of the Independence of the United States of America the one hundred ninety-seventh.

RICHARD NIXON.

THE WHITE HOUSE, *April 18, 1973.*

THE PRESIDENT'S ENERGY MESSAGE

BACKGROUND

The President has forwarded to the Congress his second Energy Message. This message presents a comprehensive program to provide for the Nation's current and future energy needs. The President's program provides for increased domestic production of fuels to minimize risks to the national security of supply interruptions. The program balances these national security considerations with concern for continued protection of the environment and for providing adequate supplies of energy at reasonable prices.

The energy picture has changed significantly in the past several years. Domestic production of fossil fuels—crude oil, natural gas and coal—has peaked. The United States no longer has excess shut-in crude production capacity. Environmental concerns have resulted in delays in siting of energy facilities and greatly increased the need for scarce low sulphur fuels, displacing high sulphur fuels, including coal. Unless the demand for energy is artificially restricted, significantly greater quantities of foreign crude oil must be imported in the next few years. There may also be temporary shortages of fuels under localized conditions.

In the mid-term, there will be increased domestic production of clean fuels; in the longer term, the development of new technologies for providing essentially pollution-free energy will be available.

The President has instituted a number of changes and recommended legislation to provide for increased domestic supplies in a manner compatible with the environment. The President has already forwarded several energy-related legislative proposals to the Congress this year—the Electric Facilities Siting Act and the Mined Areas Protection Act. He has also already submitted legislative proposals to remedy the current right-of-way difficulties with the Alaska pipeline (Mineral Leasing Act amendments and Bureau of Land Management organic legislation). Today, three additional legislative proposals were forwarded to the Congress. The Natural Gas Supply Act will enable increased supplies of natural gas to be produced because of competitive pricing of new production of natural gas and new dedications of natural gas to interstate commerce. The Deepwater Port Facilities Act will enable more environmentally acceptable and more economical shipment of oil imports to this country through appropriately sited and operated deepwater ports. The third bill resubmits a proposal made to the 92nd Congress to have the Federal Government repurchase the thirty-five oil leases in the Santa Barbara channel. In addition, the President will soon forward a proposal for the creation of a Department of Energy and Natural Resources (DENR), in order to better focus and direct the Federal programs. This is a modification of his previous proposal for the Department of Natural Resources (DNR), placing a greater emphasis on the need for a comprehensive organizational focus on energy.

Besides these legislative proposals, the President has also undertaken a number of executive actions, including among others, major changes to the Mandatory Oil Import Program and accelerated leasing of the Outer Continental Shelf.

The President's revised oil import program provides for increasing the incentive for future domestic production of crude oil and refining capacity

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through phased imposition of license fees on imports of crude oil and products above the 1973 levels. Drilling of new wells, opening of new mines and development of domestic refining capacity will require three to five years. In an effort to minimize the impact on the consumer during this period, the President has eliminated current tariffs on crude oil and products. Thus, imports at the 1973 level will enter the country duty-free; however, these duty-free import rights will be phased out over seven years, and an increasing license fee imposed.

The President's program covers virtually all energy policy areas. Specific information regarding the various components are presented in succeeding sections of this fact sheet.

BASIC U.S. ENERGY DEMAND AND SUPPLY

Over the years, U.S. gross energy consumption has increased steadily at a rate slightly less than the growth of our economy. From 1947 to the early 1960's, energy demand grew at an average annual rate of about 3%. During the period 1965–1971, our total energy demand has accelerated rapidly to an average annual rate of 4.8%. In 1972, consumption by major consuming sectors was fairly evenly divided as follows: industrial, 28.8%; electricity generation, 25.6%; transportation, 25.0%; and household and commercial, 20.6%.

Fossil fuels have historically supplied the vast majority of our energy in the United States. Until 1947, coal supplied more than half the fuels consumed. But for the last decade, petroleum and natural gas have increased to around 75% of total gross energy consumption. Although nuclear power currently supplies only 1% of current energy. It is expected to provide a very large share of future energy growth—up to 60% of electricity generation and 30% of total energy by the end of the century.

The major sources of domestic energy during 1972 were:

Petroleum (including natural gas liquids):	
Million barrels	5,960
Trillion Btu	32,812
Percent	46
Natural gas:	
Billion cubic feet	22,607
Trillion Btu	23,308
Percent	32
Coal (bituminous, anthracite, and lignite):	
Thousand short tons	517,053
Trillion Btu	12,428
Percent	17
Hydropower:	
Billion kilowatt-hours	280.2
Trillion Btu	2,937
Percent	4
Nuclear power:	
Billion kilowatt-hours	56.9
Trillion Btu	606
Percent	1
Total gross energy trillion Btu	72,091

Domestic production of fossil fuels has remained relatively constant for several years and has not expanded adequately to meet rising demand.

New discoveries of natural gas have decreased during the past several years, but increased slightly in 1972 probably due in large part to efforts by the Federal Power Commission to provide higher production prices and to optimism about future changes in regulation. However, since 1966 proven reserves have decreased 21%, while consumption has increased 37%. We are now producing and consuming about twice as much natural gas each year as we are finding and adding to proved reserves.

Production of domestic crude oil and natural gas liquids peaked in November, 1970 and deceased in 1972 to an average of 11.6 million barrels per day, down approximately 5% from the peak. Continued delay of the Alaska pipeline will result in denial of additional U.S. production of up to 2.0 million barrels per day.

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In 1972 total U.S. bituminous coal and lignite production is estimated at 590 million tons, down from 603 million tons in 1970. The use of coal has been greatly hampered by competition from lower cost and less polluting alternative fuels, primarily imported residual fuel oil in the mid-60's and low priced, regulated natural gas. Production is currently being restricted due to actual and anticipated constraints on the production and consumption of coal.

In 1967 imports to the United States exceeded reserve capacity, thus the U.S. was no longer self-sufficient. In 1972, the U.S. reached essentially 100% production (no reserve or shut-in capacity) and foreign petroleum imports totaled 4.7 million barrels per day, accounting for 29% of the total oil supply.

The projections are for large increases in imported crude oil and products, particularly during the next three to five years, primarily from the Middle East. In 1972, only about 1.4 million barrels per day ,or about 30% of total oil imports came from the Eastern Hemisphere. This amounted to only 8% of the total oil supply. By 1985, if present trends were allowed to continue, the U.S. would have to import from 50 to 60% of its total oil supply and 30 to 40% of this may have to be from Eastern Hemisphere sources. The President's energy initiatives can greatly reduce future foreign imports.

COMPETITIVE PRICING OF NATURAL GAS

The President announced today that he will submit legislation to amend the Natural Gas Act so that prices paid by interstate pipelines to producers for new supplies of domestic natural gas will be determined by the competitive forces of the market system rather than by the Federal Power Commission. This proposal would stimulate new exploration and development of domestic gas resources while maintaining current prices on present interstate supplies and eliminating any possibility of unfair gains at the expense of the consumer. The legislation includes provisions for the Secretary of the Interior to monitor the price of new supplies of natural gas, and impose a ceiling if circumstances should demand such action.

The Natural Gas Act of 1938 was passed in order to allow the Federal Power Commission to regulate the transportation and sales for resale of natural gas by the interstate pipelines. The Act specifically precludes Federal regulation of the local distribution and production or gathering of natural gas. However, in 1954, the Supreme Court held in the *Phillips* case that the Natural Gas Act also applied to sales by producers in interstate commerce. The Congress twice passed legislation to effectively deregulate natural gas, once in 1950 and again in 1956, which were vetoed by both President Truman and President Eisenhower.

After unsuccessful attempts to regulate producer prices on a case-by-case basis, in 1960 the Federal Power Commission decided to establish ceiling prices for natural gas on an area-wide basis. The first area rate proceeding for the Permian Basin area was begun in 1961, completed in 1965, and affirmed by the Supreme Court in 1968. This proceeding and all subsequent proceedings, was based primarily on the rate base and cost of service approach to regulation, which had been developed over the past half century for rate regulation of monopolistic, low-risk public utilities, such as gas pipelines and electrical power companies.

Consumption of natural gas in 1973 is estimated to be 37% higher than in 1966. Low regulated prices have discouraged development of a corresponding amount of new reserves. so that proven reserves have fallen by 21% since 1966. As a result, the ratio of reserves to production has fallen by 44%.

	(trillion cubic feet)	Percent	(trillion cubic feet)	Percent	Ratio	Percent
1966	16.9		286		16.4:1	
1972	23.8		238		10.0:1	
1973 estimate	23.0	+37	227	−21	9.2:1	−44

Note.—Estimated total potential reserves, 850 to 2,100 trillion cubic feet.

During the past year, 15 of the nation's largest interstate pipelines were forced to curtail their sales of natural gas in an amount equal to about 7% of their total sales. In many communities today, owners of new homes and

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apartments are deprived access to this clean burning and efficient fuel because of inadequate supplies. Moreover, an increasingly larger share of new natural gas supplies is being purchased within the intrastate market, which is not regulated by the Federal Power Commission, because interstate pipelines are unable to offer competitive prices for new supplies. Well-head prices in the intrastate market are up to twice as high as in the FPS regulated interstate market. In many markets today, natural gas, the most desirable fossil fuel, is selling for less per comparable heating unit than do alternative and less desirable fuels. At the same time, costs have increased significantly. It costs approximately ten times as much to drill a well in Alaska and six times as much to drill a well offshore as compared to onshore historical costs.

The increased field price of natural gas will result in very modest increase at the home for the average consumer. Because the pipelines and local distributors will remain regulated and because the new supplies of natural gas will be only a small percentage of the total supplies of the interstate pipelines for several years into the future. At the current time, the price paid to the producer for gas supplies is approximately 10—20% of the ultimate price paid by the homeowner in most areas.

The President's proposed legislation provides that the FPC be granted rate jurisdiction over the direct industrial sales of pipelines. This action will allow the Federal Power Commission to assure that industrial customers, who use natural gas, are paying a fair and equitable share of the costs of obtaining this premium fuel. However, the President's action today does not alter state and local authority over intrastate pipelines and natural gas distributors.

The President's proposed legislation will allow the competitive forces of the market system, through arms length negotiations between producers and pipelines, to determine the price of new supplies of natural gas. It will also allow the interstate pipelines to compete with the intrastate pipelines for new gas supplies and lead to a more desirable distribution and usage of this premium fuel. On balance, the action taken by the President today is expected to provide consumers more supplies of natural gas at a lower cost than any other alternative.

OUTER CONTINENTAL SHELF (OCS)

The President announced today that he has directed the Secretary of the Interior to take steps to triple the acreage leased on the Outer Continental Shelf for drilling for oil and gas by 1979.

He also announced that leasing would begin in new frontier areas including beyond the 200 meter isobath, and beyond the Channel Islands in the Pacific if the environmental impact statements indicate it can be done safely. He directed the Council on Environmental Quality, in cooperation with the National Academy of Sciences and other government agencies, to complete studies within one year on the environmental suitability of drilling on the Atlantic OCS and the Gulf of Alaska. By 1985, this accelerated OCS leasing schedule could increase annual production by approximately 1.5 billion barrels of oil (approximately 16% of our projected requirements) above what would be expected if the current lease schedule were maintained.

The offshore areas of the United States are estimated to contain 186 billion barrels of crude oil and over 844 trillion cubic feet of natural gas resources, which are recoverable with existing technology. These amounts represent approximately 40% of the nation's total undiscovered oil and gas reserves and offer promising opportunities since most onshore areas have already been explored and developed.

The Federal Government has leased OSC lands since 1954. Currently, leases in the OCS are producing over 400 million barrels of oil and about 3 trillion cubic feet of natural gas annually.

In 1969 regulations of the Department of the Interior governing leasing and operations by lessees on the Outer Continental Shelf (OCS) were extensively revised and strengthened after the problem in the Santa Barbara Channel. Since then, improvement of these standards for safety and pollution control has been a continuing effort covering a wide range of operations including drilling procedures, well abandonments, well completion procedures, pollution and waste disposal, and procedures for the installation and operations of platforms and pipelines.

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Inspection procedures have been standardized and a statistical basis for inspection strategy has been developed. The OCS field inspection staff has been tripled since 1969. Six full-time helocopters are in use and a radio communication system has been installed. The revisions and strengthening of OCS operating standards and the increase in surveillance personnel has resulted in a marked improvement in OCS operations with regard to oil spills. There were no major oil spills in 1972. Minor oil spills in 1972 were reduced by 45 percent from 1971.

The President has resubmitted legislation which would authorize the Secretary of the Interior to buy back 35 leases in the Santa Barbara Channel where the Administration suspended drilling.

ALASKA PIPELINE

The discovery of oil in Alaska was announced in February of 1968. Current estimates are that there are 10 billion barrels of proven reserves on Alaska's North Slope. Once construction begins, 2½ to 3 years will be required before delivery of new production. Initial production will be 600,000 barrels per day, rising to 2 million barrels per day in five years.

After the initial discovery, the Interior Department established a task force to study the situation in April of 1969. A pipeline application was received by the Secretary of the Interior in June 1969. After a series of public hearings and the issuance of preliminary and final environmental statements, the Secretary of the Interior announced that he intended to issue a permit for pipeline construction in May of 1972. A series of court actions resulted in Supreme Court refusal to review an earlier Court of Appeals decision, which enjoined construction because of an outmoded legal restriction regarding rights-of-way.

The Administration has submitted two bills to Congress relating to this issue: S. 1040 which amends the mineral leasing laws and S. 1041 which provides new organic legislation for the Bureau of Land Management. Both of these bills incorporate provisions which allow the Secretary of the Interior to provide for adequate rights-of-way for all pipelines over Federal lands to ensure protection of the environment.

The alternative of a pipeline through Canada was thoroughly studied prior to the Secretary's decision to authorize construction of the Trans-Alaska Pipeline (TAPS). The TAPS can be built much more quickly, creating U.S. jobs and utilized entirely for U.S. needs. Much more needs to be done prior to construction of a Trans-Canada line; detailed engineering and environmental studies would be required, hearings would be required, and permits prepared. At least three to five years delay would be involved for a Trans-Canada route which would probably cause greater environmental damage because of increased distance and the greater number of river crossings.

SHALE OIL

President Nixon's June 4, 1971 Energy Message directed the initiation of a leasing program including preparation of an environmental impact statement. On June 29, 1971 the Secretary of the Interior issued a draft environmental impact statement for a proposed prototype oil shale leasing program which would include the offering of six leases under competitive bidding of 5,120 acres each, two each in Colorado, Utah and Wyoming.

The six leases discussed will support a combined production level of no more than 250,000 barrels per day. A final environmental impact statement on the proposed program is nearing completion. If a decision is reached to proceed with the proposed program based on the environmental analysis, lease sales can be held during the summer of 1973. Stringent environmental regulations will be incorporated into any such program, including provisions to monitor changes in the existing environment. Additional oil shale leasing will not be considered until the environmental impact of prototype development has been fully evaluated.

Oil shale is the most significant energy resource known to exist in the world, with possible resources exceeding 2 trillion barrels of hydrocarbons contained in the sedimentary formations of the Rocky Mountain States, in Colorado, Utah, and Wyoming. An estimated 600 billion barrels of oil could be commer-

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cially produced from oil shale under technological development already achieved, of which 80 billion barrels are easily accessible.

Of the 11 million acres of land containing oil shale deposits considered to be potentially of commercial value, some 8.3 million acres (about 72%) are owned by the Federal Government. These are primarily "public lands" managed for multiple-use purposes by the Department of the Interior.

Of the two options to producing oil shale, only surface and subsurface mining with retort processing are believed to have been advanced to the point where it may be possible to scale up to commercial production in this decade. *In situ* (or in place) processing is in the experimental phase and commercial application of this technique cannot be expected prior to 1980.

By the mid-1980's, oil shale could contribute approximately one million barrels of oil per day to help meet the nation's growing demands for energy. The ultimate potential has not yet been established, but could exceed several million barrels per day.

COAL

The President discussed several factors related to national coal production and use in the Energy Message, including the Clean Air Act, mining legislation, and coal research.

In 1972, production of bituminous coal and lignite is estimated at 590 million tons, compared with 603 million tons in 1970. Of the 1972 production, about 57 million tons were exported and about 88 million tons were used for metallurgical purposes, leaving about 445 million tons for use as steam coal in domestic boilers. About four-fifths of this domestic steam coal is burned in power plants.

The President is committed to maintaining a strong industry to produce our most abundant domestic fossil fuel. At present rates of consumption, known reserves could supply the nation's energy needs for at least 300 years, and yet coal presently supplies less than 20% of our energy demands. Production has remained relatively level over the past several years despite rapidly increasing energy requirements. This stagnation has been attributed to some degree to health and safety standards, environmental restrictions on the sulphur content of coal, possible restriction on strip mining, and until recently, price controls.

Current coal production is split roughly evenly between surface mined and deep mined coal. As of 1972, 4 million acres of land had been disturbed by surface mining, over half of which was unreclaimed. Coal mining may also result in serious damages to water, land, and property due to acid mine drainage.

The President earlier discussed his proposed Mined Area Protection Act in the Natural Resources and Environment Message on February 15, 1973. That bill would establish Federal requirements and guidelines to regulate the environmental consequences of surface and underground mining. The bill calls for stringent standards for mining and reclamation and encourages reworking and reclamation of previously mined areas. In any state that does not enact the necessary regulations or enforce them, the Federal Government would be authorized to do so.

The Clean Air Act affects coal production and utilization because of Federal and state standards on emissions of sulphur oxides. Under the Act, EPA set ambient air quality standards to limit sulphur oxides as well as other pollutants in the air. Primary standards are set to eliminate health damages from air pollution and must be met generally by mid-1975. Secondary standards are set to eliminate welfare damages to plants, materials, and property and must be met within a reasonable time.

The states in complying with the Clean Air Act set regulations on the sulphur oxide emissions from fuel combustion sources to meet air quality standards. Each state has different regulations and in about half the states, regulations vary from region to region. In many cases the state plans were designed to meet both primary and secondary air quality standards simultaneously in 1975, although the Act allows for a reasonable time to meet secondary standards. Many states set stringent sulphur oxide emission limitations in areas already meeting both primary and secondary ambient air quality standards.

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If all state regulations were put into effect by 1975, roughly one-third of our present steam coal production could not be burned without sulphur removal equipment. If all of this coal were to be displaced, about 26,000 miners would be out of work.

Utilities have several alternatives for compliance with the state regulations, the most significant of which are burning low sulphur fuels and installation of stack gas cleaning equipment. Increased low sulphur coal production can be attained from accelerated production from existing mines or by opening new mines. The regions where such low sulphur fuel would be mined include Appalachia where most current production of low sulphur coal exists, and in the states west of the Mississippi which have vast, largely untapped reserves.

Stack gas cleaning technology is being rapidly developed. Two stack gas cleaning installations in Japan have shown high efficiency of sulphur oxide removal and very little lost operating time. These units were developed by U.S. manufacturers. Nine U.S. stack gas cleaning units have been installed in this country, and these are in various stages of solving operating problems. Nineteen additional installations are currently planned or under construction. This technology should begin to become available in relatively small quantities to help meet clean fuel needs in 1975.

The President has urged the states to adopt the policy of the EPA Administrator announced last December to delay implementation of state secondary sulfur oxide regulations beyond 1975 where stringent controls are not needed to meet primary standards. Roughly 40% of current coal consumption occurs in areas already meeting both the primary and secondary standards. This action will insure that limited supplies of clean fuels and sulphur removal technology will be utilized first in areas which need them to meet health protective standards. It should also allow continued use of existing high sulphur coal supplies to meet energy needs until sulphur removal equipment is available in greater quantities.

GEOTHERMAL ENERGY

Geothermal energy is the natural heat of the earth. Water and steam serve to transfer the heat to the earth's surface. These areas of heat concentration may be tapped and utilized as a source of energy.

The present uses of geothermal resources include power generation, space heating and industrial processing. There are a few facilities in operation worldwide which utilize geothermal steam for electric energy, particularly in Europe. In the United States, the Geysers area in California presently has a 298 megawatt (MW) electric generation facility supplying about one-third of the electric power needs of San Francisco and plans are being developed for additional facilities of 404 MW and 510 MW.

About 1.8 million acres of land in our western states have now been classified as being within Known Geothermal Resources Areas (KGRA's), according to the U.S. Geological Survey. An additional 96 million acres are listed as having prospective value for geothermal resources.

Geothermal energy could contribute significantly to our future power needs at the local level. Nationally, geothermal energy will be less significant because our resources are located only in the western states.

It is anticipated that about 4,000 MW of geothermal electrical capacity will be available by the year 1985, less than 0.1% of our total energy needs. By the year 2000, geothermal energy is expected to contribute as much as 1.5% of our total energy needs. Technological breakthroughs may increase the contribution of geothermal energy to our total power supply.

The Geothermal Steam Act of 1970 was signed by the President on December 24, 1970. This act provides for the leasing of public lands for geothermal resources development under the management of the Department of the Interior. The Administration's program, as emphasized in the President's Energy Mesage of June 4, 1971, is intended to provide for the utilization of geothermal resources under environmentally safe conditions and sound resource management practices.

It is expected that the leasing of geothermal resources on public lands will stimulate development of this resource. The Department of the Interior is making progress in the preparation of the environment statement for the geothermal leasing program and the proposed geothermal development and operating regulations. It is anticipated that the final environmental statement will

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be issued in the near future. If it is decided to proceed with the program, competitive leases incorporating environmentally safe operating and development practices may be offered within a few months after publication of the final environmental statement.

NUCLEAR POWER

The world's first nuclear reactor achieved initial operation in Chicago on December 2, 1942, launching a new technology. The Atomic Energy Commission, organized in 1946 to direct the nation's nuclear programs, proceeded with reactor development and in 1951 an experimental unit produced for the first time a small amount of electric power. Three years later, the AEC formally inaugurated a developmental effort looking toward commercial power reactors. In 1957 the Shippingport (Pa.) plant began operation as the first reactor producing power for commercial consumption.

In the 1950's several utilities began building reactors in the 200,000 kilowatt (KW) size range. The next scale up, to 400,000 to 500,000 KW, came in the early 1960's and by the late 1960's reactors on order had advanced to the 1,000,000 KW size as utilities took advantage of improvement in the economics of larger plants.

At present, 30 nuclear power plants are in operation, 60 are under construction, and 75 others have been ordered.

With 150 reactor years of operating experience in the United States, the safety of nuclear power has been clearly proved.

Nuclear power, now providing about 4% of the nation's electricity, will account for up to 25% by 1985, and up to 60% by the end of the century. Thus, the current nuclear capacity of about 14,700,000 KW is expected to grow to 1,200,000,000 KW by the year 2000.

The AEC has major developmental programs underway in the energy field—the fast breeder reactor, which holds the promise of making reserves of uranium fuel last for centuries, and controlled thermonuclear fusion which, if harnessed in a reactor, would use the virtually limitless supplies of deuterium in seawater as fuel.

MANDATORY OIL IMPORT PROGRAM

A voluntary oil import program was begun in 1957. The Mandatory Oil Import Program was initiated in 1959 on the basis of a national security finding to limit low priced imports, thus providing protection for development of higher cost U.S. production and refining capacity. It was clear that, without regulation, market forces would encourage U.S. integrated oil companies to exploit cheaper foreign reserves of crude oil despite the risk of disruption to supply. This, in turn, could jeopardize the viability of the U.S. domestic oil industry. In the 1960's, the program did serve a useful purpose, maintaining a healthy domestic petroleum industry which could not have survived in direct competition with low cost Middle Eastern imports.

Within the industry, the independent refiners, terminal operators, jobbers and marketers have historically all received the great majority of their supplies (crude or products) from the major oil companies, not other independents. Sale of import licenses (tickets) is prohibited under the program. Exchanges of tickets, however, have been common. Exchanges of tickets were attractive to both parties, i.e., inland independent refiners used domestic crude produced by the major oil companies and the major oil companies imported and refined the foreign crude using the inland refiners' tickets.

In 1972, prorationing reached the 100% level; U.S. production capacity had peaked and began decling. Between 1969 and 1972, total oil imports rose by 52% to 4.7 million barrels per day. Imports for 1973 of both crude oil and products are projected at 6.0 million barrels per day. In early 1972, landed foreign crude prices were still lower than domestic prices and the sum of domestic production plus imports was equal to demand. The ticket still had value and could be traded, thus facilitating full operation of inland, independent refineries and providing ample products for the independent marketers.

In 1973, landed foreign crude and product prices rose significantly. This was due to increased OPEC ownership participation in production companies, devaluation of the dollar, high tanker rates, and high market prices for scarce low sulphur fuels. With increased ticket allocations (56% increase in 1973), there

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is now no shortage of tickets. These two factors have made import tickets of little or no value. Under these circumstances, some major oil companies have been less willing to trade tickets. Thus, many independent refiners and marketers have had problems obtaining supplies.

To respond to the need for increasing importation of crude oil and products, the President in 1972 raised the import quota levels twice to ensure adequate supplies. Quotas were totally lifted on heating oil in December, 1972, until April 30, 1973, and the 1973 import quota is 56% higher than in 1972. In addition, in March of this year, the President removed all limitations on the amount of import licenses which can be issued by the Oil Appeals Board (OIAB). The OIAB now issues these licenses to any party, usually a refiner, terminal operator, or marketer, based on hardship. These actions, coupled with the longer range actions announced today, are expected to reduce the possible near term fuel shortages.

The President has instituted the most sweeping changes since the Program was begun in 1959. The Program is being restructured to meet both the current needs for fuels at the lowest cost to the consumer by removing the current tariffs, while at the same time, providing longer term stability and additional incentives for increased domestic exploration and production and new refinery construction and expansion by providing for license fees to be imposed on imports above the 1973 levels.

Those presently holding tickets under the 1973 program will be able to trade these valuable, license fee exempt import licenses for domestic crude oil or products. This should help alleviate some of the current distribution problems affecting primarily the inland independent refiners and marketers. The licensee fee exempt import rights will be phased out over seven years, to minimize Federal involvement and provide for more efficient market operation. The President also announced specific provisions to stimulate the construction of domestic refineries and plans to provide for increased storage to minimize the impact of possible supply interruptions.

DEEPWATER PORTS

There are at least 60 ports or buoy facilities currently in operation worldwide which are capable of handling ships of 175,000 deadweight tons (DWT) or more. These facilities geenrally have water depths of at least 80 feet. There are no ports in the United States now capable of handling these large ships; consequently, the U.S. is currently not able to benefit directly from the significant economic savings and environmental benefits from the use of offshore ports and supertankers.

With a few exceptions, the United States has a shallow continental shelf and no natural deepwater harbors. Most major U.S. ports are currently dredged to depths between 35 and 45 feet. It is generally not feasible to build deepwater ports in the United States by dredging or improving existing harbors. Thus, most deepwater ports would have to be built offshore beyond state waters in international waters, sometimes at distances of twenty or thirty miles from the shoreline.

At the end of 1971, more than one-fourth of the world's total oil-carrying capacity consisted of ships in the 175,000 DWT class and over. A total of 223 such ships were in operation and 321 more were on order. New orders represent approximately 50% of existing tanker tonnage of all registries.

Total tanker arrivals for the 48 contiguous states in 1971 was 67,770, with 56,700 (84%) of these in Petroleum Administration District I (PAD I) which is the Eastern Seaboard. West Coast arrivals totaled 4,420 and Gulf Coast arrivals were 6,650. Most of the shipments were products from the Gulf Coast and the Caribbean to PAD I. The average size of the ships currently carrying imported crude is about 29,000 DWT.

By 1980, Eastern Seaboard (PAD I) imports of foreign oil by very large crude carriers (VLCC) are expected to average between 1 and 3.5 million barrels per day, virtually all of which will come from Africa or the Persian Gulf. If the U.S. does not rapidly develop deepwater port capability, foreign transshipment terminals in the Bahamas and the Canadian Maritime Provinces will probably be developed by U.S. and foreign companies. The U.S. will then be serviced by increasing numbers of small and medium sized transshipment

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vessels, increasing the risks of pollution from vessel casualties and operations and requiring expansion of conventional port facilities.

Significant economies can be achieved from use of larger vessels. Dollar per ton freight costs could be reduced nearly 30% by increasing tanker size from 65,000 to 250,000 DWT. Greater economies can be realized utilizing bigger ships.

The environmental advantage of offshore deepwater ports is that they reduce the risks of collision and grounding and minimize the probability that spilled oil will reach beaches or estuaries. The most valid environmental concern involves the impact of primary and secondary economic development, such as refineries and petrochemical plants, associated with the port. These risks are recognized and can be controlled through land use planning and adequate local zoning. Dispersion of facilities versus concentration with only a few ports would probably significantly reduce the environmental impact on any particular region.

The President has proposed legislation which will provide authority for the Secretary of the Interior, in consultation with other concerned Federal agencies and state governments, to issue a license in waters beyond state jurisdiction for the construction and operation of deepwater ports. The legislation is intended to simply provide a complete legal regime for licensing beyond the three mile limit, under strict environmental safeguards and with provisions for navigation and safety. The President recognizes the importance of the states in developing ports and associated onshore facilities. The legislation does not preempt state authority, but extends state laws to any deepwater port licensed by the Department of the Interior, as long as those laws are not in conflict with Federal laws.

The President's legislation makes provision for issuance of the necessary license for the rights-of-way for an associated pipeline by amending the Outer Continental Shelf Lands Act (OCSLA). Under the OCSLA, the Secretary of the Interior currently grants rights-of-way for pipelines constructed to bring oil and gas ashore from offshore drilling operations.

ENERGY CONSERVATION

Current Federal energy conservation programs are diffused in many Federal departments and agencies. The President has directed the establishment of an Office of Energy Conservation within the Department of the Interior. That Office will coordinate Federal energy conservation programs, conduct research on issues related to energy conservation, and work to educate the public on energy efficiency and costs.

Energy demand is growing more rapidly than in the past, now at levels of 4.8% annually. Some sectors, such as consumption of fuels for electricity and transportation, are growing at significantly faster rates. Besides the impact of the continually increasing U.S. standard of living and the availability of more labor saving devices to more Americans, environmental regulations have significantly increased energy consumption. This is particularly apparent with the automobile, where pollution control devices have reduced engine operating efficiencies.

The President directed the Department of Commerce, in cooperation with the Council on Environmental Quality and the Environmental Protection Agency, to develop a voluntary labeling program which would apply to major energy-consuming home appliances, automobiles and auto accessories. Automobiles and home appliances account for approximately 20% of current energy demand. Manufacturers could voluntarily display labels providing data on energy use, as well as a rating based on the product's efficiency relative to other similar projects. Standard testing procedures for appliances would be developed by the National Bureau of Standards and for autos by the Environmental Protection Agency. As a first step toward this goal, the Environmental Protection Agency will shortly release the results of its tests of automotive efficiency.

In the last two years, the President has twice directed the Department of Housing and Urban Development to strengthen FHA insulation requirements for single and multifamily housing. The President has now directed HUD to evaluate extension of insulation standards to mobile homes.

The President directed all Federal agencies to develop programs to conserve energy. These programs include building design and construction, procurement

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of energy conserving products and through taking into account the energy impacts of their major actions. The new Office of Energy Conservation will work closely with the Federal agencies to implement this directive.

The General Services Administration is constructing a new Federal office building in Manchester, New Hampshire, using advanced energy conservaton techniques. The GSA has established a goal of reducing energy use by 20% over typical buildings of the same size. The National Bureau of Standards is now evaluating energy use in an actual full size house in its laboratories in Gaithersburg, Maryland. When this evaluation is complete, analytical techniques will be available to help predict energy use for new structures. This effort, combined with the experience gained in the construction and operation of the demonstration Federal building, will provide guidance for construction of Federal buildings and assist architects and contractors to help them conserve energy.

ENERGY RESEARCH AND DEVELOPMENT

The President indicated today that funding for energy R&D would continue to be monitored carefully and when additional funds are essential those funds would be provided.

A detailed summary of the specific programs is attached. The highlights of the President's energy R&D program follow.

Coal.—The President's FY'74 budget includes a 27% increase to $120 million for coal R&D—or a 300% increase since 1970. Additional funds to be requested would further increase this level. Major programs at the Department of the Interior to expand the use of coal in a manner compatible with the environment are:

Liquefaction and precombustion removal of pollutants.
High BTU coal gasification to produce pipeline quality gas.
Low BTU coal classification for industrial and utility use.

Nuclear Fission.—The FY'74 budget provides for a $63 million increase for AEC's nuclear fission R&D programs.

Highlights are:

A $51 million increase to maintain the pace of the Liquid Metal Fast Breeder Reactor program toward the goal of commercial demonstration by 1980.

An 11% increase in R&D to further ensure the safety of the current generation of light water reactors.

Nuclear Fusion.—The AEC's thermonuclear fusion program is increased 35% to $88 million in the FY'74 budget. This program includes:

A 19% increase to develop controlled thermonuclear fusion reactors through magnetic confinement.

A 59% increase to develop the capability to initiate a thermonuclear reaction using a high speed powered laser.

Solar Energy.—The solar energy program would triple, from $4 million in FY'73 to $12 million in FY'74. The program will be administered by the National Science Foundation and emphasize the development of solar energy for:

Heating and cooling of buildings.
Producing and converting organic materials to fuels.
Generating electricity.

Additional Environmental Control R&D.—In addition to the substantial efforts to develop cleaner fuel from coal, the FY'74 budget provides for a 24% increase, from $38 to $47 million, for other environmental control research with expected near-term benefits. This includes a construction of the TVA demonstration SO_x removal plant as well as continued R&D aimed at minimizing the thermal effects of power plants.

Other R&D Programs.—Other energy R&D programs include:

An accelerated effort in utilization of geothermal energy.

Development of magnetohydrodynamic (MHD) devices, in cooperation with the Soviet Union, to produce electric power more efficiently from heat.

Electric Utility Participation.—The President also cited the importance of non-Federal energy R&D and noted with pleasure the formation of the Electric Power Research Institute. He indicated that this utility R&D organization, with a budget in 1974 exceeding $100 million, would provide additional capability to accelerate and influence the development of energy technology. The President also urged all State utility commissions to consider permitting increased R&D expenditures to be included in utility rate bases.

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INTERNATIONAL

The President called for greater cooperation between all nations on energy matters. He specifically noted the need for consuming nations to cooperate to ensure that ample supplies are available to all nations.

Most of the world's oil producing nations have been organized into a cartel in 1960 called the Organization of Petroleum Exporting Countries (OPEC).* The member nations provide over 90% of the world's current oil trade and 75% of the free world oil reserves. Revenues to these nations in 1970 were approximately $7 billion; and are growing.

In early 1972 the exporting states won special price increases from the companies to compensate for devaluation of the U.S. dollar and will receive similar increases in 1973. Recently, the oil companies accepted the host government as partners in petroleum operations. Under the agreements worked out for the Persian Gulf states, government equity in the properties will rise in steps from an initial 25% to 51% by 1982.

The United States currently imports approximately 6.0 million barrels per day of crude oil and petroleum products. The products, approximately 2.2 million barrels per day. are mostly residual fuel oil for the Eastern Seaboard (2.3 million barrels per day). U.S. imports by source can be summarized as follows:

U.S. OIL IMPORTS, CURRENT—BY SOURCE OF ORIGIN

Canada	1.2 million barrels per day	20 percent.
Other Western Hemisphere	2.3 million barrels per day	38 percent.
Eastern Hemisphere	2.5 million barrels per day	42 percent.
Total	6.0 million barrels per day	33 percent of demand.

The nations of Western Europe and Japan are highly dependent on foreign sources of supply for fuels, particularly the Middle East.

INTERNATIONAL IMPORT SUMMARY

[Million barrels per day]

	1972	Estimated 1973	Estimated 1980	Current dependence on oil (percent)
United States	4.7	6.0	10 to 12	46
Western Europe	14.4	15.5	22 to 26	60
Japan	5.0	5.5	10 to 13	75

The United States meets regularly with these other consuming nations, including Canada and Australia, as a member of the Organization for Economic Cooperation and Development (OECD).

The entire world faces energy-related problems similar to those faced by by the United States, although this nation is more fortunate than many with vast reserves of fossil fuels. The President proposed greater international cooperation in solving these problems through research and development. He cited the recent agreements with the Soviet Union to exchange information on fusion, fission, electric generation, transmission and pollution control technology and to jointly pursue research in magnetohydrodynamics (MHD).

ENERGY ORGANIZATION

In March 1971, the President proposed legislation to create a Department of Natural Resources which would have included important energy policy functions and programs. The 92nd Congress did not act on that proposal.

The President has announced a number of changes by executive action better to focus and implement Federal energy programs and coordinate energy matters which affect many agencies and involve both domestic and international considerations. In addition, he will propose shortly new organizational arrangements which require Congressional approval.

* The charter members were Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela. Joining later were Qatar (1961), Libya and Indonesia (1962), Abu Dhabi (1967), Algeria (1969), and Nigeria (1971).

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Steps taken by the President include:

Established a Special Energy Committee composed of his Assistants for Domestic Affairs, Foreign Affairs, and Economic Affairs.

Appointed a Special Consultant to the President for energy matters who heads a staff in the Office of the President to support the Special Energy Committee.

Issued, today, an Executive Order formalizing the Energy Committee and reaffirming the appointment and role of his Special Consultant for Energy.

Appointed in January 1973 the Counsellor to the President for Natural Resources who coordinates a broad range of domestic natural resources, environment and energy matters.

Directed the Secretary of the Interior to strengthen his Department's organization for energy activities. Actions accomplished to date or planned include creation of a new position with the title of Assistant Secretary for Energy and Minerals, a new Office of Energy Conservation, and increased capability for energy data and analysis. Capabilities for overseeing and coordinating energy R&D are being strengthened.

Placed authority in the Department of Treasury for direction of the Oil Policy Committee, which committee coordinates the oil import program and recommends changes in the program to the President.

These actions will help improve the ability of the Executive Branch to develop, implement and coordinate energy programs, but they are largely interim steps. More fundamental changes are needed and the President will submit legislation to the Congress establishing a Department of Energy and Natural Resources (DENR). This legislation will modify the President's 1971 proposal for DNR to provide more emphasis for energy policy and management.

FEDERAL ENERGY R. & D. FUNDING

	Agency	Fiscal year-- 1970	1971	1972	1973	1974
Coal: resources development		30.4	49.0	73.5	94.5	119.9
Production and utilization R. & D. including gasification, liquefaction, and MHD.	DOI-OCR	13.5	18.8	30.3	43.5	52.5
	DOI-BOM	13.2	15.4	14.7	19.8	18.1
Mining health and safety research	DOI-BOM	3.7	14.8	28.5	31.2	28.3
Interior central fund (part)	DOI					21.0
Petroleum and natural gas		8.8	11.5	12.9	12.8	9.1
Petroleum extraction tech	DOI-BOM	2.7	2.7	3.2	3.1	3.1
Nuclear gas stimulation	AEC	3.7	6.1	7.1	7.2	4.0
Oil shale	DOI-BOM	2.4	2.7	2.6	2.5	2.0
Nuclear fisson		283.4	295.2	358.0	412.0	475.4
Liquid metal fast breeder reactor	AEC	144.3	167.9	236.0	269.0	320.0
	TVA			.2	3.0	3.0
Other civilian nuclear power	AEC	108.5	96.6	86.8	98.0	90.5
Nuclear materials process development	AEC	30.6	30.7	35.0	42.0	61.9
Nuclear fusion		37.5	42.2	52.8	65.5	88.5
Magnetic confinement	AEC	34.3	32.2	33.3	39.6	47.3
Laser	AEC	3.2	10.0	19.5	25.9	41.2
Solar energy	NSF			1.7	4.2	12.2
Geothermal energy	NSF	.2	.2	1.4	3.4	4.1
	NSF			.7	.7	1.4
	DOI-GS	.2	.2	.7	2.5	2.5
	DOI-BOM				.2	.2
Electrical generation, transmission and storage.			1.3	2.2	4.9	4.1
	NSF		.5	1.3	2.4	0.9
	DOI		.8	.9	1.0	1.0
	AEC				1.5	2.2
Control technology (stationary sources)				28.6	38.1	47.5
Air pollution control technology	EPA	19.8	17.4	24.5	29.5	21.5

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	Agency	Fiscal year— 1970	1971	1972	1973	1974
SOX removal	TVA			1.1	3.0	18.0
Ttermal effects	EPA	.8	.6	.7	1.0	1.0
	AEC	1.5	1.8	2.3	4.6	7.0
Miscellaneous				6.3	6.9	11.0
Systems and resource studies	NSF			4.4	5.3	5.3
Energetics research	NSF			1.9	1.6	1.7
Interior central fund (part)	DOI					4.0
Total research and development		382.4	419.2	537.4	642.3	771.8
Recap by agency:						
AEC		326.1	345.3	420.0	487.8	574.1
EPA		20.6	18.0	25.2	30.5	22.5
NSF			.5	10.0	14.2	21.5
DOI		35.7	55.4	80.9	103.8	132.7
TVA				1.3	6.0	21.0

NOTE.—Agency codes:
AEC—Atomic Energy Commission.
DOI-BOM—Department of the Interior, Bureau of Mines.
DOI-GS—Department of the Interior, Geological Survey.
DOI-OCR—Department of the Interior, Office of Coal Research.
NSF—National Science Foundation.
TVA—Tennessee Valley Authority.

THE WHITE HOUSE, *April 18, 1973.*

To the Congress of the United States:

At home and abroad, America is in a time of transition. Old problems are yielding to new initiatives, but in their place new problems are arising which once again challenge our ingenuity and require vigorous action. Nowhere is this more clearly true than in the field of energy.

As America has become more prosperous and more heavily industrialized, our demands for energy have soared. Today, with 6 percent of the world's population, we consume almost a third of all the energy used in the world. Our energy demands have grown so rapidly that they now outstrip our available supplies, and at our present rate of growth, our energy needs a dozen years from now will be nearly double what they were in 1970.

In the years immediately ahead, we must face up to the possibility of occasional energy shortages and some increase in energy prices.

Clearly, we are facing a vitally important energy challenge. If present trends continue unchecked, we could face a genuine energy crisis. But that crisis can and should be averted, for we have the capacity and the resources to meet our energy needs if only we take the proper steps—and take them now.

More than half the world's total reserves of coal are located within the United States. This resource alone would be enough to provide for our energy needs for well over a century. We have potential resources of billions of barrels of recoverable oil, similar quantities of shale oil and more than 2,000 trillion cubic feet of natural gas. Properly managed, and with more attention on the part of consumers to the conservation of energy, these supplies can last for as long as our economy depends on conventional fuels.

In addition to natural fuels, we can draw upon hydroelectric plants and increasing numbers of nuclear powered facilities. Moreover, long before our present energy sources are exhausted, America's vast capabilities in research and development can provide us with new, clean and virtually unlimited sources of power.

Thus we should not be misled into pessimistic predictions of an energy disaster. But neither should we be lulled into a false sense of security. We must examine our circumstances realistically, carefully weigh the alternatives—and then move forward decisively.

WEIGHING THE ALTERNATIVES

Over 90 percent of the energy we consume today in the United States comes from three sources: natural gas, coal and petroleum. Each source presents us with a different set of problems.

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Natural gas is our cleanest fuel and is most preferred in order to protect our environment, but ill-considered regulations of natural gas prices by the Federal Government have produced a serious and increasing scarcity of this fuel.

We have vast quantities of coal, but the extraction and use of coal have presented such persistent environmental problems that, today, less than 20 percent of our energy needs are met by coal and the health of the entire coal industry is seriously threatened.

Our third conventional resource is oil, but domestic production of available oil is no longer able to keep pace with demands.

In determining how we should expand and develop these resources, along with others such as nuclear power, we must take into account not only our economic goals, but also our environmental goals and our national security goals. Each of these areas is profoundly affected by our decisions concerning energy.

If we are to maintain the vigor of our economy, the health of our environment, and the security of our energy resources, it is essential that we strike the right balance among these priorities.

The choices are difficult, but we cannot refuse to act because of this. We cannot stand still simply because it is difficult to go forward. That is the one choice Americans must never make.

The energy challenge is one of the great opportunities of our time. We have already begun to meet that challenge, and realize its opportunities.

NATIONAL ENERGY POLICY

In 1971, I sent to the Congress the first message on energy policies ever submitted by an American President. In that message I proposed a number of specific steps to meet our projected needs by increasing our supply of clean energy in America.

Those steps included expanded research and development to obtain more clean energy, increased availability of energy resources located on Federal lands, increased efforts in the development of nuclear power, and a new Federal organization to plan and manage our energy programs.

In the twenty-two months since I submitted that message, America's energy research and development efforts have been expanded by 50 percent.

In order to increase domestic production of conventional fuels, sales of oil and gas leases on the Outer Continental Shelf have been increased. Federal and State standards to protect the marine environment in which these leases are depicted are being tightened. We have developed a more rigorous surveillance capability and an improved ability to prevent and clean up oil spills.

We are planning to proceed with the development of oil shale and geothermal energy sources on Federal lands, so long as an evaluation now underway shows that our environment can be adequately protected.

We have also taken new steps to expand our uranium enrichment capacity for the production of fuels for nuclear power plants, to standardize nuclear power plant designs, and to ensure the continuation of an already enviable safety record.

We have issued new standards and guidelines, and have taken other actions to increase and encourage better conservation of energy.

In short, we have made a strong beginning in our effort to ensure that America will always have the power needed to fuel its prosperity. But what we have accomplished is only a beginning.

Now we must build on our increased knowledge, and on the accomplishments of the past twenty-two months, to develop a more comprehensive, integrated national energy policy. To carry out this policy we must:

Increase domestic production of all forms of energy;

Act to conserve energy more effectively;

Strive to meet our energy needs at the lowest cost consistent with the protection of both our national security and natural environment;

Reduce excessive regulatory and administrative impediments which have delayed or prevented construction of energy-producing facilities;

Act in concert with other nations to conduct research in the energy field and to find ways to prevent serious shortages; and

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Apply our vast scientific and technological capacities—both public and private—so we can utilize our current energy resources more wisely and develop new sources and new forms of energy.

The actions I am announcing today and the proposals I am submitting to the Congress are designed to achieve these objectives. They reflect the fact that we are in a period of transition, in which we must work to avoid or at least minimize short-term supply shortages, while we act to expand and develop our domestic supplies in order to meet long-term energy needs.

We should not suppose this transition period will be easy. The task ahead will require the concerted and cooperative efforts of consumers, industry, and government.

DEVELOPING OUR DOMESTIC ENERGY RESOURCES

The effort to increase domestic energy production in a manner consistent with our economic, environmental and security interests should focus on the following areas:

Natural Gas

Natural gas is America's premium fuel. It is clean-burning and thus has the least detrimental effect on our environment.

Since 1966, our consumption of natural gas has increased by over one-third, so that today natural gas comprises 32 percent of the total energy we consume from all sources. During this same period, our proven and available reserves of natural gas have decreased by a fifth. Unless we act responsibly, we will soon encounter increasing shortages of this vital fuel.

Yet the problem of shortages results less from inadequate resources than from ill-conceived regulation. Natural gas is the fuel most heavily regulated by the Federal Government—through the Federal Power Commission. Not only are the operations of interstate natural gas pipelines regulated, as was originally and properly intended by the Congress, but the price of the natural gas supplied to these pipelines by thousands of independent producers has also been regulated.

For more than a decade the prices of natural gas supplied to pipelines under this extended regulation have been kept artificially low. As a result, demand has been artificially stimulated, but the exploration and development required to provide new supplies to satisfy this increasing demand have been allowed to wither. This form of government regulation has contributed heavily to the shortages we have experienced, and to the greater scarcity we now anticipate.

As a result of its low regulated price, more than 50 percent of our natural gas is consumed by industrial users and utilities, many of which might otherwise be using coal or oil. While homeowners are being forced to turn away from natural gas and toward more expensive fuels, unnecessarily large quantities of natural gas are being used by industry.

Furthermore, because prices within producing States are often higher than the interstate prices established by the Federal Power Commission, most newly discovered and newly produced natural gas does not enter interstate pipelines. Potential consumers in non-producing States thus suffer the worst shortages. While the Federal Power Commision has tried to alleviate these problems, the regulatory framework and attendant judicial constraints inhibit the ability of the Commission to respond adequately.

It is clear that the price paid to producers for natural gas in interstate trade must increase if there is to be the needed incentive for increasing supply and reducing inefficient usage. Some have suggested additional regulation to provide new incentives, but we have already seen the pitfalls in this approach. We must regulate less, not more. At the same time, we cannot remove all natural gas regulations without greatly inflating the price of gas currently in production and generating windfall profits.

To resolve this issue, I am proposing that gas from new wells, gas newly-dedicated to interstate markets, and the continuing production of natural gas from expired contracts should no longer be subject to price regulation at the wellhead. Enactment of this legislation should stimulate new exploration and development. At the same time, because increased prices on new unregulated gas would be averaged in with the prices for gas that is still regulated, the consumer should be protected against precipitous cost increases.

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To add further consumer protection against unjustified price increases, I propose that the Secretary of the Interior be given authority to impose a ceiling on the price of new natural gas when circumstances warrant. Before exercising this power, the Secretary would consider the cost of alternative domestic fuels, taking into account the superiority of natural gas from an environmental standpoint. He would also consider the importance of encouraging production and more efficient use of natural gas.

Outer Continental Shelf

Approximately half of the oil and gas resources in this country are located on public lands, primarily on the Outer Continental Shelf (OCS). The speed at which we can increase our domestic energy production will depend in large measure on how rapidly these resources can be developed.

Since 1954, the Department of the Interior has leased to private developers almost 8 million acres on the Outer Continental Shelf. But this is only a small percentage of these potentially productive areas. At a time when we are being forced to obtain almost 30 percent of our oil from foreign sources, this level of development is not adequate.

I am therefore directing the Secretary of the Interior to take steps which would triple the annual acreage leased on the Outer Continental Shelf by 1979, beginning with expanded sales in 1974 in the Gulf of Mexico and including areas beyond 200 meters in depth under conditions consistent with my oceans policy statement of May, 1970. By 1985, this accelerated leasing rate could increase annual energy production by an estimated 1.5 billion barrels of oil (approximately 16 percent of our projected oil requirements in that year), and 5 trillion cubic feet of natural gas (approximately 20 percent of expected demand for natural gas that year).

In the past, a central concern in bringing these particular resources into production has been the threat of environmental damage. Today, new techniques, new regulations and standards, and new surveillance capabilities enable us to reduce and control environmental dangers substantially. We should now take advantage of this progress. The resources under the Shelf, and on all our public lands, belong to all Americans, and the critical needs of all Americans for new energy supplies require that we develop them.

If at any time it is determined that exploration and development of a specific shelf area can only proceed with inadequate protection of the environment, we will not commence or continue operations. This policy was reflected in the suspension of 35 leases in the Santa Barbara Channel in 1971. We are continuing the Santa Barbara suspensions, and I again request that the Congress pass legislation that would provide for appropriate settlement for those who are forced to relinquish their leases in the area.

At the same time, I am directing the Secretary of the Interior to proceed with leasing the Outer Continental Shelf beyond the Channel Islands of California if the reviews now underway show that the environmental risks are acceptable.

I am also asking the Chairman of the Council on Environmental Quality to work with the Environmental Protection Agency, in consultation with the National Academy of Sciences and appropriate Federal agencies, to study the environmental impact of oil and gas production on the Atlantic Outer Continental Shelf and in the Gulf of Alaska. No drilling will be undertaken in these areas until its environmental impact is determined. Governors, legislators and citizens of these areas will be consulted in this process.

Finally, I am asking the Secretary of the Interior to develop a long-term leasing program for *all* energy resources on public lands, based on a thorough analysis of the Nation's energy, environmental, and economic objectives.

Alaskan Pipeline

Another important source of domestic oil exists on the North Slope of Alaska. Although private industry stands ready to develop these reserves and the Federal Government has spent large sums on environmental analyses, this project is still being delayed. This delay is not related to any adverse judicial findings concerning environmental impact, but rather to an outmoded legal restriction regarding the width of the right of way for the proposed pipeline.

At a time when we are importing growing quantities of oil at great detriment to our balance of payments, and at a time when we are also experiencing

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significant oil shortages, we clearly need the two million barrels a day which the North Slope could provide—a supply equal to fully one-third of our present import levels.

In recent weeks I have proposed legislation to the Congress which would remove the present restriction on the pipeline. I appeal to the Congress to act swiftly on this matter so that we can begin construction of the pipeline with all possible speed.

I oppose any further delay in order to restudy the advisability of building the pipeline through Canada. Our interest in rapidly increasing our supply of oil is best served by an Alaskan pipeline. It could be completed much more quickly than a Canadian pipeline; its entire capacity would be used to carry domestically owned oil to American markets where it is needed; and construction of an Alaskan pipeline would create a significant number of American jobs both in Alaska and in the maritime industry.

Shale Oil

Recoverable deposits of shale oil in the continental United States are estimated at some 600 billion barrels, 80 billion of which are considered easily accessible.

At the time of my Energy Message of 1971, I requested the Secretary of the Interior to develop an oil shale leasing program on a pilot basis and to provide me with a thorough evaluation of the environmental impact of such a program. The Secretary has prepared this pilot project and expects to have a final environmental impact statement soon. If the environmental risks are acceptable, we will proceed with the program.

To date there has been no commercial production of shale oil in the United States. Our pilot program will provide us with valuable experience in using various operational techniques and acting under various environmental conditions. Under the proposed program, the costs both of development and environmental protection would be borne by the private lessee.

Geothermal Leases

At the time of my earlier Energy Message, I also directed the Department of the Interior to prepare a leasing program for the development of geothermal energy on Federal lands. The regulations and final environmental analysis for such a program should be completed by late spring of this year.

If the analysis indicates that we can proceed in an environmentally acceptable manner, I expect leasing of geothermal fields on Federal lands to begin soon thereafter.

The use of geothermal energy could be of significant importance to many of our western areas, and by supplying a part of the western energy demand, could release other energy resources that would otherwise have to be used. Today, for instance power from the Geysers geothermal field in California furnishes about one-third of the electric power of the city of San Francisco.

New technologies in locating and producing geothermal energy are now under development. During the coming fiscal year, the National Science Foundation and the Geological Survey will intensify their research and development efforts in this field.

Coal

Coal is our most abundant and least costly domestic source of energy. Nevertheless, at a time when energy shortages loom on the horizon, coal provides less than 20 percent of our energy demands, and there is serious danger that its use will be reduced even further. If this reduction occurs, we would have to increase our oil imports rapidly, with all the trade and security problems this would entail.

Production of coal has been limited not only by competition from natural gas —a competition which has been artificially induced by Federal price regulation—but also by emerging environmental concerns and mine health and safety requirements. In order to meet environmental standards, utilities have shifted to natural gas and imported low-sulphur fuel oil. The problem is compounded by the fact that some low-sulphur coal resources are not being developed because of uncertainty about Federal and State mining regulations.

I urge that highest national priority be given to expanded development and utilization of our coal resources. Present and potential users who are able to

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choose among energy sources should consider the national interest as they make their choice. Each decision against coal increases petroleum or gas consumption, compromising our national self-sufficiency and raising the cost of meeting our energy needs.

In my State of the Union Message on Natural Resources and the Environment earlier this year, I called for strong legislation to protect the environment from abuse caused by mining. I now repeat that call. Until the coal industry knows the mining rules under which it will have to operate, our vast reserves of low-sulphur coal will not be developed as rapidly as they should be and the under-utilization of such coal will persist.

The Clean Air Act of 1970, as amended, requires that primary air quality standards—those related to health—must be met by 1975, while more stringent secondary standards—those related to the "general welfare"—must be met within a reasonable period. The States are moving very effectively to meet primary standards etsablished by the Clean Air Act, and I am encouraged by their efforts.

At the same time, our concern for the "general welfare" or national interest should take into account considerations of national security and economic prosperity, as well as our environment.

If we insisted upon meeting both primary and secondary clean air standards by 1975, we could prevent the use of up to 155 million tons of coal per day. This would force an increase in demand for oil of 1.6 million barrels per day. This oil would have to be imported, with an adverse effect on our balance of payments of some $1.5 billion or more a year. Such a development would also threaten the loss of an estimated 26,000 coal mining jobs.

If, on the other hand, we carry out the provisions of the Clean Air Act in a judicious manner, carefully meeting the primary, health-related standards, but not moving in a precipitous way toward meeting the secondary standards, then we should be able to use virtually all of that coal which would otherwise go unused.

The Environmental Protection Agency has indicated that the reasonable time allowed by the Clean Air Act for meeting secondary standards could extend beyond 1975. Last year, the Administrator of the Environmental Protection Agency sent to all State governors a letter explaining that during the current period of shortages in low-sulphur fuel, the States should not require the burning of such fuels except where necessary to meet the primary standards for the protection of health. This action by the States should permit the desirable substitution of coal for low-sulphur fuel in many instances. I strongly support this policy.

Many State regulatory commissions permit their State utilities to pass on increased fuel costs to the consumer in the form of higher rates, but there are sometimes lags in allowing the costs of environmental control equipment to be passed on in a similar way. Such lags discourage the use of environmental control technology and encourage the use of low-sulphur fuels, most of which are imported.

To increase the incentive for using new environmental technology, I urge all State utility commissions to ensure that utilities receive a rapid and fair return on pollution control equipment, including stack gas cleaning devices and coal gasification processes.

As an additional measure to increase the production and use of coal, I am directing that a new reporting system on national coal production be instituted within the Department of the Interior, and I am asking the Federal Power Commission for regular reports on the use of coal by utilities.

I am also stepping up our spending for research and development in coal, with special emphasis on technology for sulphur removal and the development of low-cost, clean-burning forms of coal.

Nuclear Energy

Although our greatest dependence for energy until now has been on fossil fuels such as coal and oil, we must not and we need not continue this heavy reliance in the future. The major alternative to fossil fuel energy for the remainder of this century is nuclear energy.

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Our well-established nuclear technology already represents an indispensable source of energy for meeting present needs. At present there are 30 nuclear power plants in operation in the United States; of the new electrical generator capacity contracted for during 1972, 70 percent will be nuclear powered. By 1980, the amount of electricity generated by nuclear reactors will be equivalent to 1.25 billion barrels of oil, or 8 trillion cubic feet of gas. It is estimated that nuclear power will provide more than one-quarter of this country's electrical production by 1985, and over half by the year 2000.

Most nuclear power plants now in operation utilize light water reactors. In the near future, some will use high temperature gas-cooled reactors. These techniques will be supplemented during the next decade by the fast breeder reactor, which will bring about a 30-fold increase in the efficiency with which we utilize our domestic uranium resources. At present, development of the liquid metal fast breeder reactor is our highest priority target for nuclear research and development.

Nuclear power generation has an extraordinary safety record. There has never been a nuclear-related fatality in our civilian atomic energy program. We intend to maintain that record by increasing research and development in reactor safety.

The process of determining the safety and environmental acceptability of nuclear power plants is more vigorous and more open to public participation than for any comparable industrial enterprise. Every effort must be made by the Government and industry to protect public health and safety and to provide satisfactory answers to those with honest concerns about this source of power.

At the same time, we must seek to avoid unreasonable delays in developing nuclear power. They serve only to impose unnecessary costs and aggravate our energy shortages. It is discouraging to know that nuclear facilities capable of generating 27,000 megawatts of electric power which were expected to be operational by 1972 were not completed. To replace that generating capacity we would have to use the equivalent of one-third of the natural gas the country used for generating electricity in 1972. This situation must not continue.

In my first Energy Special Message in 1971, I proposed that utilities prepare and publish long-range plans for the siting of nuclear power plants and transmission lines. This legislation would provide a Federal-State framework for licensing individual plants on the basis of a full and balanced consideration of both environmental and energy needs. The Congress has not acted on that proposal. I am resubmitting that legislation this year with a number of new provisions to simplify licensing, including one to require that the Government act on all completed license applications within 18 months after they are received.

I would also emphasize that the private sector's role in future nuclear development must continue to grow. The Atomic Energy Commission is presently taking steps to provide greater amounts of enriched uranium fuel for the Nation's nuclear power plants. However, this expansion will not fully meet our needs in the 1980's; the Government now looks to private industry to provide the additional capacity that will be required.

Our nucear technology is a national asset of inestimable value. It is essential that we press forward with its development.

The increasing occurrence of unnecesary delays in the development of energy facilities must be ended if we are to meet our energy needs. To be sure, reasonable safeguards must be vigorously maintained for protection of the public and of our environment. Full public participation and questioning must also be allowed as we decide where new energy facilities are to be built. We need to streamline our governmental procedures for licensing and inspections, reduce overlapping jurisdictions and eliminate confusion generated by the government.

To achieve these ends I am taking several steps. During the coming year we will examine various possibilities to assure that all public and private interests are impartially and expeditiously weighed in all government proceedings for permits, licensing and inspections.

I am again proposing siting legislation to the Congress for electric facilities and for the first time, for deepwater ports. All of my new siting legislation includes provision for simplified licensing at both Federal and State levels.

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It is vital that the Congress take prompt and favorable action on these proposals.

Encouraging Domestic Exploration

Our tax system now provides needed incentives for mineral exploration in the form of percentage depletion allowances and deductions for certain drilling expenses. These provisions do not, however, distinguish between exploration for new reserves and development of existing reserves.

In order to encourage increased exploration, I ask the Congress to extend the investment credit provisions of our present tax law so that a credit will be provided for all exploratory drilling for new oil and gas fields. Under this proposal, a somewhat higher credit would apply for successful exploratory wells than for unsuccessful ones, in order to put an additional premium on results.

The investment credit has proven itself a powerful stimulus to industrial activity. I expect it to be equally effective in the search for new reserves.

IMPORTING TO MEET OUR ENERGY NEEDS

Oil Imports

In order to avert a short-term fuel shortage and to keep fuel costs as low as possible, it will be necessary for us to increase fuel imports. At the same time, in order to reduce our long-term reliance on imports, we must encourage the exploration and development of our domestic oil and the construction of refineries to process it.

The present quota system for oil imports—the Mandatory Oil Import Program—was established at a time when we could produce more oil at home than we were using. By imposing quantitative restrictions on imports, the quota system restricted imports of foreign oil. It also encouraged the development of our domestic petroleum industry in the interest of national security.

Today, however, we are not producing as much oil as we are using, and we must import ever larger amounts to meet our needs.

As a result, the current Mandatory Oil Import Program is of virtually no benefit any longer. Instead, it has the very real potential of aggravating our supply problems, and it denies us the flexibility we need to deal quickly and efficiently with our import requirements. General dissatisfaction with the program and the apparent need for change has led to uncertainty. Under these conditions, there can be little long-range investment planning for new drilling and refinery construction.

Effective today, I am removing by proclamation all existing tariffs on imported crude oil and products. Holders of import licenses will be able to import petroleum duty free. This action will help hold down the cost of energy to the American consumer.

Effective today, I am also suspending direct control over the quantity of crude oil and refined products which can be imported. In place of these controls, I am substituting a license-fee quota system.

Under the new system, present holders of import licenses may import petroleum exempt from fees up to the level of their 1973 quota allocations. For imports in excess of the 1973 level, a fee must be paid by the importer.

This system should achieve several objectives.

First, it should help to meet our immediate energy needs by encouraging importation of foreign oil at the lowest cost to consumers, while also providing incentives for exploration and development of our domestic resources to meet our long-term needs. There will be little paid in fees this year, although all exemptions from fees will be phased out over several years. By gradually increasing fees over the next two and one-half years to a maximum level of one-half cent per gallon for crude oil and one and one-half cents per gallon for all refined products, we should continue to meet our energy needs while encouraging industry to increase its domestic production.

Second, this system should encourage refinery construction in the United States, because the fees are higher for refined product than for crude oil. As an added incentive, crude oil in amounts up to three-fourths of new refining capacity may be imported without being subject to any fees. This special allow-

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ance will be available to an oil company during the first five years after it builds or expands its refining capacity.

Third, this system should provide the flexibility we must have to meet short and long-term needs efficiently. We will review the fee level periodically to ensure that we are imposing the lowest fees consistent with our intention to increase domestic production while keeping costs to the consumer at the lowest possible level. We will also make full use of the Oil Import Appeals Board to ensure that the needs of all elements of the petroleum industry are met, particularly those of independent operators who help to maintain market competition.

Fourth, the new system should contribute to our national security. Increased domestic production will leave us less dependent on foreign supplies. At the same time, we will adjust the fees in a manner designed to encourage, to the extent possible, the security of our foreign supplies. Finally, I am directing the Oil Policy Committee to examine incentives aimed at increasing our domestic storage capacity or shut-in production. In this way we will provide buffer stocks to insulate ourselves against a temporary loss of foreign supplies.

Deepwater Ports

It is clear that in the foreseeable future, we will have to import oil in large quantities. We should do this as cheaply as we can with minimal damage to the environment. Unfortunately, our present capabilities are inadequate for these purposes.

The answer to this problem lies in deepwater ports which can accommodate those larger ships, providing important economic advantages while reducing the risks of collision and grounding. Recent studies by the Council on Environmental Quality demonstrate that we can expect considerably less pollution if we use fewer but larger tankers and deepwater facilities, as opposed to the many small tankers and conventional facilities which we would otherwise need.

If we do not enlarge our deepwater port capacity, it is clear that both American and foreign companies will expand oil transshipment terminals in the Bahamas and the Canadian Martime Provinces. From these terminals, oil will be brought to our conventional ports by growing numbers of small and medium size transshipment vessels, thereby increasing the risks of pollution from shipping operations and accidents. At the same time, the United States will lose the jobs and capital that those foreign facilities provide.

Given these considerations, I believe we must move forward with an ambitious program to create new deepwater ports for receiving petroleum imports.

The development of ports has usually been a responsibility of State and local governments and the private sector. However, States cannot issue licenses beyond the three-mile limit. I am therefore proposing legislation to permit the Department of the Interior to issue such licenses. Licensing would be contingent upon full and proper evaluation of environmental impact; and would provide for strict navigation and safety, as well as proper land use requirements. The proposed legislation specifically provides for Federal cooperation with State and local authorities.

CONSERVING ENERGY

The abundance of America's natural resources has been one of our greatest advantages in the past. But if this abundance encourages us to take our resources for granted, then it may well be a detriment to our future.

Common sense clearly dictates that as we expand the types and sources of energy available to us for the future, we must direct equal attention to conserving the energy available to us today, and we must explore means to limit future growth in energy demand.

We as a nation must develop a national energy conservation ethic. Industry can help by designing products which conserve energy and by using energy more efficiently. All workers and consumers can help by continually saving energy in their day-to-day activities: by turning out lights, tuning up automobiles, reducing the use of air conditioning and heating, and purchasing products which use energy efficiently.

Government at all levels also has an important role to play, both by conserving energy directly, and by providing leadership in energy conservation efforts.

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I am directing today that an Office of Energy Conservation be established in the Department of the Interior to coordinate the energy conservation programs which are presently scattered throughout the Federal establishment. This office will conduct research and work with consumer and environmental groups in their efforts to educate consumers on ways to get the greatest return on their energy dollar.

To provide consumers with further information, I am directing the Department of Commerce, working with the Council on Environmental Quality and the Environmental Protection Agency, to develop a voluntary system of energy efficiency labels for major home appliances.. These labels should provide data on energy use as well as a rating comparing the product's efficiency to other similar products. In addition, the Environmental Protection Agency will soon release the results of its tests of fuel efficiency in automobiles.

There are other ways, too, in which government can exercise leadership in this field. I urge again, for example, that we allow local officials to use money from Highway Trust Fund for mass transit purposes. Greater reliance on mass transit can do a great deal to help us conserve gasoline.

The Federal Government can also lead by example. The General Services Administration, for instance, is constructing a new Federal office building using advanced energy conservation techniques, with a goal of reducing energy use by 20 percent over typical buildings of the same size. At the same time, the National Bureau of Standards is evaluating energy use in a full-size house within its laboratories. When this evaluation is complete, analytical techniques will be available to help predict energy use for new dwellings. This information, together with the experience gained in the construction and operation of the demonstration Federal building, will assist architects and contractors to design and construct energy-efficient buildings.

Significant steps to upgrade insulation standards on single and multi-family dwellings were taken at my direction in 1971 and 1972, helping to reduce heat loss and otherwise conserve energy in the residential sector. As soon as the results of these important demonstration projects are available, I will direct the Federal Housing Administration to update its insulation standards in light of what we have learned and to consider their possible extension to mobile homes.

Finally, we should recognize that the single most effective means of encouraging energy conservation is to ensure that energy prices reflect their true costs. By eliminating regulations such as the current ceiling on natural gas prices and by ensuring that the costs of adequate environmental controls are equitably allocated, we can move toward more efficient distribution of our resources.

Energy conservation is a national necessity, but I believe that it can be undertaken most effectively on a voluntary basis. If the challenge is ignored, the result will be a danger of increased shortages, increased prices, damage to the environment and the increased possibility that conservation will have to be undertaken by compulsory means in the future. There should be no need for a nation which has always been rich in energy to have to turn to energy rationing. This is a part of the energy challenge which every American can help to meet, and I call upon every American to do his or her part.

RESEARCH AND DEVELOPMENT

If we are to be certain that the forward thrust of our economy will not be hampered by insufficient energy supplies or by energy supplies that are prohibitively expensive, then we must not continue to be dependent on conventional forms of energy. We must instead make every useful effort through research and development to provide both alternative sources of energy and new technologies for producing and utilizing this energy.

For the short-term future, our research and development strategy will provide technologies to extract and utilize our existing fossil fuels in a manner most compatible with a healthy environment.

In the longer run, from 1985 to the beginning of the next century, we will have more sophisticated development of our fossil fuel resources and on the full development of the Liquid Metal Fast Breeder Reactor. Our efforts for the distant future center on the development of technologies— such as nuclear fusion and solar power—that can provide us with a virtually limitless supply of clean energy.

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In my 1971 Energy Special Message to the Congress I outlined a broadly based research and development program. I proposed the expansion of cooperative Government-industry efforts to develop the Liquid Metal Fast Breeder Reactor, coal gasification, and stack gas cleaning systems at the demonstration level. These programs are all progressing well.

My budget for fiscal year 1974 provides for an increase in energy research and development funding of 20 percent over the level of 1973.

My 1974 budget provides for creation of a new central energy fund in the Interior Department to provide additional money for non-nuclear research and development, with the greatest part designated for coal research. This central fund is designated to give us flexibility we need for rapid exploitation of new, especially promising energy technologies with near-term payoffs.

One of the most promising programs that will be receiving increased funding in fiscal year 1974 is the solvent refined coal process which will produce low-ash, low-sulphur fuels from coal. Altogether, coal research and development and proposed funding is increased by 27 percent.

In addition to increased funding for the Liquid Metal Fast Breeder Reactor, I am asking for greater research and development on reactor safety and radioactive waste disposal, and the production of nuclear fuel.

The waters of the world contain potential fuel—in the form of a special isotope of hydrogen—sufficient to power fusion reactors for thousands of years. Scientists at the Atomic Energy Commission now predict with increasing confidence that we can demonstrate laboratory feasibility of controlled thermonuclear fusion by magnetic confinement in the near future. We have also advanced to the point where some scientists believe the feasibility of laser fusion could be demonstrated within the next several years. I have proposed in my 1974 budget a 35 percent increase in funding for our total fusion research and development effort to accelerate experimental programs and to initiate preliminary reactor design studies.

While we look to breeder reactors to meet our mid-term energy needs, today's commercial power reactors will continue to provide most of our nuclear generating capacity for the balance of this century. Although nuclear reactors have had a remarkable safety record my 1974 budget provides additional funds to assure that our rapidly growing reliance on nuclear power will not compromise public health and safety. This includes work on systems for safe storage of the radioactive waste which nuclear reactors produce. The Atomic Energy Commission is working on additional improvements in surface storage and will continue to explore the possibility of underground burial for long-term containment of these wastes.

Solar energy holds great promise as a potentially limitless source of clean energy. My new budget triples our solar energy research and development effort to a level of $12 million. A major portion of these funds would be devoted to accelerating the development of commercial systems for heating and cooling buildings.

Research and development funds relating to environmental control technologies would be increased 24 percent in my 1974 budget. This research includes a variety of projects related to stack gas cleaning and includes the construction of a demonstration sulphur dioxide removal plant. In addition, the Atomic Energy Commission and the Environmental Protection Agency will continue to conduct research on the thermal effects of power plants.

While the Federal Government is significantly increasing its commitment to energy research and development, a large share of such research is and should be conducted by the private sector.

I am especially pleased that the electric utilities have recognized the importance of research in meeting the rapidly escalating demand for electrical energy. The recent establishment of the Electric Power Research Institute, which will have a budget in 1974 in excess of $100 million, can help develop technology to met both load demands and environmental regulations currently challenging the industry.

Historically the electric power industry has allocated a smaller portion of its revenues to research than have most other technology-dependent industries. This pattern has been partly attributable to the reluctance of some State utility commissions to include increased research and development expenditures in utility rate bases. Recently the Federal Power Commission instituted a national rule to allow the recovery of research and development expenditures

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in rates. State regulatory agencies have followed the FPC's lead and are liberalizing their treatment of research and development expenditures consistent with our changing national energy demands.

I am hopeful that this trend will continue and I urge all State utility commissions to review their regulations regarding research and development expenditures to ensure that the electric utility industry can fully cooperate in a national energy research and development effort.

It is foolish and self-defeating to allocate funds more rapidly than they can be effectively spent. At the same time, we must carefully monitor our progress and our needs to ensure that our funding is adequate. When additional funds are found to be essential, I shall do everything I can to see that they are provided.

INTERNATIONAL COOPERATION

The eneregy challenge confronts every nation. Where there is such a community of interest, there is both a cause and a basis for cooperative action.

Today, the United States is involved in a number of cooperative, international efforts. We have joined with the other 22 member-nations of the Organization for Economic Cooperation and Development to produce a comprehensive report on long-term problems and to develop an agreement for sharing oil in times of acute shortages. The European Economic Community has already discussed the need for cooperative efforts and is preparing recommendations for a Community energy policy. We have expressed a desire to work together with them in this effort.

We have also agreed with the Soviet Union to pursue joint research in magnetohydrodynamics (MHD), a highly efficient process for generating electricity, and to exchange information on fusion, fission, the generation of electricity, transmission and pollution control technology. These efforts should be a model for joint research efforts with other countries. Additionally, American companies are looking into the possibility of joint projects with the Soviet Union to develop natural resources for the benefit of both nations.

I have also instructed the Department of State, in coordination with the Atomic Energy Commission, other appropriate Government agencies, and the Congress to move rapidly in developing a program of international cooperation in research and development on new forms of energy and in developing international mechanisms for dealing with energy questions in times of critical shortages.

I believe the energy challenge provides an important opportunity for nations to pursue vital objectives through peaceful cooperation. No chance should be lost to strengthen the structure of peace we are seeking to build in the world, and few issues provide us with as good an opportunity to demonstrate that there is more to be gained in pursuing our national interests through mutual cooperation than through destructive competition or dangerous confrontation.

Federal Energy Organization

If we are to meet the energy challenge, the current fragmented organization of energy-related activities in the executive branch of the Government must be overhauled.

In 1971, I proposed legislation to consolidate Federal energy-related activities within a new Department of Natural Resources. The 92nd Congress did not act on this proposal. In the interim I have created a new post of Counsellor to the President on Natural Resources to assist in the policy coordination in the natural resources field.

Today I am taking executive action specifically to improve the Federal organization of energy activities.

I have directed the Secretary of the Interior to strenghten his Department's organization of energy activities in several ways.

The responsibilities of the new Assistant Secretary for Energy and Minerals will be expanded to incorporate all departmental energy activities;

The Department is to develop a capacity for gathering and analysis of energy data;

An Office of Energy Conservation is being created to seek means for reducing demands for energy;

The Department of the Interior has also strengthened its capabilities for overseeing and coordinating a broader range of energy research and development.

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By Executive order, I have placed authority in the Department of the Treasury for directing the Oil Policy Committee. That Committee coordinates the oil import program and makes recommendations to me for changes in that program. The Deputy Secretary of the Treasury has been designated Chairman of that Committee.

Through a second Executive order, effective today, I am strengthening the capabilities of the Executive Office of the President to deal with top level energy policy matters by establishing a special energy committee composed of three of my principal advisors. The order also reaffirms the appointment of a Special Consultant, who heads an energy staff in the Office of the President.

Additionally, a new division of Energy and Science is being established within the Office of Management and Budget.

While these executive actions will help, more fundamental reorganization is needed. To meet this need, I shall propose legislation to establish a Department of Energy and Natural Resources (DENR) building on the legislation I submitted in 1971, with heightened emphasis on energy programs.

This new Department would provide leadership across the entire range of national energy. It would, in short, be responsible for administering the national energy policy detailed in this message.

CONCLUSION

Nations succeed only as they are able to respond to challenge, and to change when circumstances and opportunities require change.

When the first settlers came to America, they found a land of untold natural wealth, and this became the cornerstone of the most prosperous nation in the world. As we have grown in population, in prosperity, in industrial capacity, in all those indices that reflect the constant upward thrust in the American standard of living, the demands on our natural resources have also grown.

Today, the energy resources which have fueled so much of our national growth are not sufficiently developed to meet the constantly increasing demands which have been placed upon them. The time has come to change the way we meet these demands. The challenge facing us represents one of the great opportunities of our time—an opportunity to create an even stronger domestic economy, a cleaner environment, and a better life for all our people.

The proposals I am submitting and the actions I will take can give us the tools to do this important job.

The need for action is urgent. I hope the Congress will act with dispatch on the proposals I am submitting. But in the final analysis, the ultimate responsibility does not rest merely with the Congress or with this Administration. It rests with all of us—with government, with industry and with the individual citizen.

Whenever we have been confronted with great national challenges in the past, the American people have done their duty. I am confident we shall do so now.

RICHARD NIXON.

STATEMENT OF KENNETH A. GASKIN, PRESIDENT, TIARA OIL CO.

Mr. Chairman, I am Kenneth A. Gaskin, President of Tiara Oil Company, a position which I have held since the Company's founding in 1964.

I appreciate the opportunity to enter this statement into the record of your hearing concerning the energy shortage in general and the commercial jet fuel shortage, in particular. More importantly, it is always gratifying to discuss this area with those who are directly concerned with the small business problems of the Nation.

Tiara Oil Company specializes in marketing commercial jet fuels and is accredited to the domestic and foreign airlines throughout the free world. Tiara was organized under the concept of providing a single marketing mechanism which could compete nationwide with the major jet fuel marketers, such as Esso, (now Exxon), Texaco and Shell, by consolidating the individual jet fuel outputs of a number of scattered refineries, and selling that fuel under a common brand-name to airlines and other turbine fuel users.

Tiara's business operations are conducted from offices in Devon, Pennsylvania, Detroit, Michigan, and Washington, D.C. Since Tiara is not affiliated with any

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major refiner, it must purchase its jet fuel in the open market for its own account and then sell that fuel, for its own account, to the airlines or other customers. Tiara by necessity and due to limited jet fuel supplies, has remained a small business concern since its organization. Its maximum annual sales have reached only approximately $540,000 (1967) and in 1971 were only $135,000.

This statement is based on my personal experience in the commercial jet fuel market beginning July 1, 1958, and on my general observations of the energy situation in context with the restrictions imposed by the Mandatory Oil Import Program since 1959.

My responsibility to your Committee, as I see it, is to recount my observations and to make such recommendations as may be helpful in meeting the challenges which this nation faces in the future.

The American consumer is indeed now undergoing sporadic fuel shortages resulting in localized brown-outs, black-outs, the curtailment of commercial flights, and even partial gasoline rationing. It is understandable that the average consumer is surprised to experience such shortages in peacetime.

However, what is alarming is the fact that the administrators of the nation's energy programs were also surprised, or, if not surprised, did so little so late to counter the developments.

The Mandatory Oil Import Program was instituted in consideration of the national security yet we have drifted to a state of national insecurity so far as our energy outlook is concerned.

It is my understanding that the Congress is meeting its oversight responsibility by determining just what went wrong, what we can do about it, and who precisely is responsible for the present state of affairs. That surely is a commendable undertaking and one which will have the fullest support of both the American consumers and the petroleum industry.

It is my belief that the overall energy situation will improve and that we can meet our growing energy demand providing the United States maintains a favorable posture toward friendly oil producing countries in the Middle East and in the Western Hemisphere. As our oil imports increase, unless we effectively use our high technological capability and advantage to offset such purchases, our balance of payment position will be seriously impaired.

In the past, one of our mainstays in foreign trade has been our exporting of commercial aircraft and we have led in this area throughout the free world for approximately a quarter century. Unfortunately that lead is threatened just when our demand for petroleum imports is increasing.

To help resolve this financial dilemma, my Company, in 1971, advanced a plan calling for closer cooperation with certain oil producing countries in the Middle East, under a partnership arrangement whereby the U.S. could exchange its technology for crude oil. The concept was set down in the Tiara Preliminary SST Development Plan which was forwarded to the White House in April 1971. I have attached hereto, for the Committee's information, a copy of Memorandum dated March 22, 1972, which outlines in some detail the general concept.

There are, of course, other high-technology areas which if used in trade-offs, would ameloriate the financial imbalances incurred by greater imports than exports, during the next decade. However, in my opinion, it is highly doubtful that the U.S. can readily reverse the trend toward exporting refining capacity, even under the newly modified Oil Import Program, because factors, other than crude oil and product price-differentials, are involved; namely. ecological and environmental barriers here in the U.S., higher labor costs, and a general public apathy and disenchantment with new energy systems.

As respects the general energy situation. I will conclude with the observation that some of the agencies of the Administration which are responsible for action in energy crises are laggardly in response. An example of administrative "foot-dragging," or failure to act, occurred in December 1972 when the serious jet fuel shortage hit the New York airports. At that time Tiara Oil Company had a limited quantity of imported jet fuel in bonded storage tanks at J. F. Kennedy airport. Our customer, American Airlines could not use the bonded jet fuel on domestic flights, and so Tiara and American both urgently appealed to the Import Board for action. The Department of the Interior and the Oil Import Appeals Board both had authority to act under the Regulation, but neither did, and a clearance to use the fuel to help alleviate the domestic shortage was never received.

Both of these agencies seemed arbitrarily transfixed by the unexpected crisis, hence both, either intentionally or unintentionally, did nothing.

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More ironically, the Office of Emergency Preparedness telephoned my office in Philadelphia to ask what Tiara was doing to help in the jet fuel crisis! (The attached Tiara news release dated January 16, 1973 speaks to this precise point.)

Bluntly stated, the American consumer can be protected by the most perfect energy system ever devised, but the system will not work if administered by Federal employees who are irresponsible, irresponsive and incompetent.

I now turn back to the commercial jet fuel market in which product-area my Company specializes.

The domestic airlines spend upwards of $1 billion annually for jet fuel, which product represents approximately 35% of the direct operating cost of an aircraft. Prior to the Vietnam build-up in 1967, which caused increased demand for military jet fuel, an oversupply of commercial jet fuel was available for the commercial market. When Tiara was formed in 1964, its objective of bringing fresh and meaningful competition to the jet fuel market, was widely acclaimed and encouraged by the airlines, and understandably so, because the aviation fuels market for years had been "dominated by only a handful of major integrated oil companies," to quote the recent words of Senator Philip A. Hart.

Tiara's first customer was Lufthansa German airlines which we began servicing in 1966. In 1967, Tiara's sales increased to approximately $540,000 but at that point, supply difficulties developed, and being unable to obtain adequate supplies from domestic sources, Tiara had no other alternative but to seek an import allocation in order to utilize jet fuel purchased abroad, in order to offset that fuel which the DOD pre-empted from supplies which Tiara had originally expected to be available from independent refiners here in the U.S.

On May 24, 1967 the Department of the Interior conducted public hearings on changes to the Mandatory Oil Import Program at which hearings Tiara Oil Company described the jet fuel market and made the following recommendations, most of which were later adopted:

1. The the importation and use of bonded jet fuels should be continued lest curtailment jeopardize commercial air activity.
2. That sporadic shortages of various products be treated under provisions establishing the Oil Import Appeals Board.
3. That the Department of Defense finished product import quota, be used in its entirety by the Oil Import Appeals Board to alleviate severe shortages. (This was accomplished largely through the efforts of Congressman John Dingell of the House Small Business Committee, and other concerned Members of the Congress.)
4. That the Oil Import Appeals Board be given additional reserve import quotas by conversion of crude imports to finished product quotas.
5. That the Department of Transportation be given representation on the Oil Import Appeals Board.

(On May 28, 1969 Tiara Oil Company entered formal motion that the DOD be disqualified for representation on the OIAB because of conflict of interest and Senator Richard Schweiker in letter dated July 11, 1969, forwarded Tiara's complaint to the Secretary of Defense. In early 1970, the DOD was removed from representation and the Justice Department substituted.)

A copy of Tiara's testimony of May 24, 1967 to the Department of Interior is attached, much of which applies today.

Changes to the Oil Import Program have helped hundreds of independent small businessmen throughout the country, in product areas such as heating oil, propane, asphalt and gasoline.

However, no help whatever has been afforded Tiara Oil Company, which, to my knowledge, is the only independent marketer in the commercial jet fuel area, despite the fact that Tiara first filed for import allocations with the Oil Import Appeals Board in August 1966. Although Tiara is fully qualified for grant of an import allocation under the Oil Import Regulation, its series of petitions through 1972 have proved fruitless, despite direct support of the petition by the Administrator of the Small Business Administration, the Air Transport Association, the Aerospace Industries Association, the Air Lines Pilots Association (AFL–CIO) and a number of individual airlines and independent refiners. Tiara's petitions have been opposed by only one marketer in California, and that opposition was in respect of self-interest.

The flimsy contrivances used by the Oil Import Appeals Board as grounds for denial prompted Tiara to file Federal Court action on July 22, 1970 (C.A.

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2181–70, U.S.D.C.-D.C.). However the case was voluntarily dropped on appeal in 1971, in deference to Tiara's efforts to develop a US-SST.

During the period, 1966-1972, while Tiara was petitioning the Import Board for relief from its supply shortages, it was able to continue in business only through sales of limited quantities of jet fuel and was therefore forced to augment its operating income with borrowed capital, to meet operational costs.

A measure of Tiara's supply shortages can be seen from the attached chart entitled "Market Demand, Tiara Oil Sales Forecast, Operating Expenses and Profit," which chart was prepared when Tiara first went into business and which sales projections justified the original and follow-on capital investments in the Company. The chart, for example shows that, in 1967, Tiara projected sales of 50 million gallons of jet fuel based on gaining only a 1% share of the market; and yet, due to supply shortages, Tiara sold only 5 million gallons in that year, even though it did have customers, who would have purchased the 50 million gallons.

Because the Oil Import Appeals Board and certain individuals in the Department of Interior readily granted jet fuel import allocations and clearances to Tiara's competitors—for example, Texaco and Shell—an investigation was begun in April 1972 to determine the reason for repeated denials of an import allocation to Tiara, which denials had the effect of protecting the closely-held commercial jet fuel market from further penetration by an independent.

Evidence and testimony accumulated since April 6, 1972, now indicates the existence of a conspiracy to deny Tiara Oil Company a jet fuel import allocation and by such denial, restrict competition in the commercial jet fuel market.

The evidence indicates that the conspiracy had its origin and continuation within the Department of Commerce and involved former Deputy Assistant Secretary Stanley Nehmer, who, it appears, was appointed on September 7, 1965 during the regime of Alexander B. Trowbridge, who before coming to the Commerce Department was an Executive of Esso.

Evidence indicates the conspiracy involved other Commerce Department employees, who authored decisions and kept OIAB records, while having no official standing upon the Board.

Evidence indicates that on, or about, December 29, 1972, Justice Member Schueller authored a document finding Tiara suffering exceptional hardship under the Mandatory Oil Import Program and therefore deserving of a grant of an import allocation. Evidence further indicates that OIAB Chairman Flagg was favorable toward granting Tiara an import allocation, but the favorable document authored by Justice Member Schueller never reached Chairman Flagg for signature after which the document would have issued as a favorable decision.

Evidence indicates that while Chairman Flagg and Justice Member Schueller were on leave of absence, a Commerce Department employe authored a substitute negative decision, and the decision was signed by an employee of Interior in an acting capacity, and by a substitute Justice employee, neither of whom had attended any of the public hearings on Tiara's petitions.

Evidence now shows that OIAB Chairman Lewis S. Flagg, III, first favored granting an oil import allocation to Tiara in 1969 and evidence now in hand, shows that the same two Commerce Department employees who were involved in the continuing conspiracy to deny Tiara an import allocation, were also involved in concerted action leading to the removal of OIAB Chairman Lewis S. Flagg III from office.

Attached hereto is a copy of the substitute negative decision dated April 3, 1973, as authored by a Commerce Department employee, and it is noteworthy that a reference therein pertains to my commitment to the President of the United States. Therefore, I am, under separate letter, notifying both the President and the Acting Attorney General of this matter.

For the Committee's information, I have kept my Senator from Pennsylvania, Senator Hugh Scott, advised of developments so that the Senate, should it choose to investigate the matter, would have a point of departure.

I respectfully request that this Committee fully explore this matter to determine the extent and involvement of the Federal employes in question, so that in the future those government employees who are responsible for the nation's energy programs and its national security, will adhere to more acceptable standards in the conduct of this nation's business.

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For the Committee's consideration, I conclude with a statement from the case of *Burlington Truck Lines* v. *United States* (1962) where the Supreme Court deliberately cautioned, ". . . unless we make the requirement for administrative action strict and demanding, expertise, the strength of modern government, can become a monster, which rules with no practical limits on its discretion . . ."

Thank you, Mr. Chairman.

WATERWAY OPERATIONS CONFERENCE,
Washington, D.C., May 9, 1973.

Hon. THOMAS J. MCINTYRE,
Chairman, Subcommittee on Financial Institutions, Committee on Banking, Housing and Urban Affairs, U.S. Senate, Washington, D.C.

DEAR SENATOR: The Waterway Operations Conferences, an association consisting of 15 of the major U.S. water carriers, operating on our nation's inland waterway system, wishes to express its deep appreciation to you and other members of the Senate Committee for your very timely action in conducting the above subject hearings.

The member companies of our newly formed Conference currently move over 50% of the total tonnages now transported by water on our inland river system. As the most efficient and vital mode of transportation in energy production per se, inland water carriers clearly recognize the crisis which now besets the country and which will very likely get much worse before it gets better.

Last fall, individual water carrier companies operating in the Midwest began to note an ever increasing difficulty in securing adequate contracts for fuel needs. Principally, our industry uses the No. 2 fuel oil. This is the very same distillate that is used to heat vital public service institutions as well as homes in the winter. We frankly believe that good public policy requires that decision-making in these all important areas must not be left to the whims of individual suppliers, but that government should play an appropriate role in the exercise of the public interest.

The Waterway Operations Conference strongly endorses a course of action which will establish allocation of production procedure for the various petroleum fuels. We call for immediate affirmative steps toward implementing the authority that now exists in this area.

The situation in Mid America has not improved with time and the advent of warmer weather. Prices are going up daily and some suppliers are presently voluntarily allocating existing stocks to individual customers on a random basis. These conditions on occasion have caused tie-ups in several of our major inland port cities and on the waterways vital to such important manufacturing centers as Chicago, Pittsburgh, and Detroit. It must be remembered here that these tows are providing energy resources and their stoppage or delay en route further contributes to the shortages felt throughout all effected segments of our economy. Petroleum and its various derivatives, as well as coal, rank #1 and #3, respectively, among the most significant bulk cargoes moved by water transport. Any curtailments in the full flow of these commodities result in a multiplier-like effect which can not only impair basic manufacturing and electric generating industry, but also affect other essential modes of transportation which serve the nation's needs.

The Waterway Operations Conference firmly believes that in the long range view government must take a clear and comprehensive look at the energy costs of transportation. In a recent talk before the Florida Governor's Conference on Energy Supply and Use, Dr. William Mooz of the Rand Corporation clearly documents the primary energy consumption efficiency of water transportation. I have taken the liberty of enclosing the brief but complete text of Dr. Mooz's remarks together with necessary charts which I believe will be of considerable benefit to the record of the hearings.

Equally as important, energy resources and the quality of our environment are inexorably linked together by nature. The environmental/energy conservation implications of water transport are clear. By burning less fuel per ton-mile in areas normally far removed from dense population, air and noise pollution are virtually eliminated. The minimal amount of accidental water pollution of the navigable waterways by barging operations has been fully documented by other committees of the Congress. The new laws enacted during the last session of the Congress, and the regulations issued thereunder, will further assure these goals.

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In conclusion, Senator, our Conference again wishes to commend your leadership in seeking to focus public attention and needed governmental concern on the multifaceted problems involved in the current petroleum situation. Please be assured of our deep appreciation for the opportunity to provide these comments.

Respectfully,

JAMES T. GLENN,
General Counsel,

ENERGY IN THE TRANSPORTATION SECTOR

By William E. Mooz*

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ABSTRACT

A discussion of the use of energy in the transportation sector. Transportation in the U.S. presently uses about 25 percent of the total annual energy budget, and the use of energy in the sector is increasing at an average annual rate of about 4 percent per year. Over 95 percent of this energy is supplied by petroleum fuels, and the biggest users are motor vehicles. Differences in modal efficiencies are shown, with motor vehicles and aircraft the least efficient energy users. The growth in energy use by transportation is shown to be due to increasing modal energy intensiveness, shifts in traffic from low intensiveness modes to high intensiveness modes, and increasing per capita use of transportation.

ENERGY IN THE TRANSPORTATION SECTOR

While the transportation sector is not the largest sectoral user of energy, it is certainly the sector in which energy use is most obvious. Not only did each of us use energy to come to this conference, but depending upon how each came and what distance he traveled, we probably passed anywhere from dozens to thousands of gasoline stations on the way. Not only that, but if you came from Los Angeles, as I did, you know that transportation systems can pollute the air, and also mold the shape of our urban environment.

Transportation presently uses about 25 percent of the annual energy budget in the U.S. simply as fuel for motive purposes. In my talk today I am going to restrict my remarks to the subject of energy used for motive purposes, because it is the easiest to describe. However, everyone should recognize that besides the energy used to power our transportation system, there is also a vast amount of energy used in building the cars, constructing the roads and airports, repairing the dents, and all of the other facets of the transportation system. Should all of these be considered, instead of transportation representing 25 percent of the energy budget, the figure is more like 41 percent, which would make transportation the largest single sector.

I mentioned gasoline stations. This was not by accident, since most of the energy used to power our transportation system is petroleum derived, and over half of the energy use is by automobiles. Fig 1 illustrates both the type of fuels used and the modes using them, and one can see that in 1970 petroleum fuels represented almost 96 percent of the transportation budget. This figure shows many other things, and I want to return to them later. At the moment, I have explained the size of the transportation sector, and the type of energy it uses, and now I want to show the trends in the growth of the sector. Fig. 2 shows data for a variety of sectors in the U.S. over the period from 1947 to 1969. During this period, the share of energy used for transportation varied only a small amount—from 27 percent of the total in 1947 to 24.3 percent of the total in 1969. More recent figures show that it is now about 25 percent. The almost constant share of the energy budget shows that the use of energy by transportation is growing at about the same rate as our total use of energy, or about 4 percent per year. This is a figure that we will also return to later.

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* The text of a talk given at the Florida Governor's Conference on Energy Supply and Use, Tallahassee, Florida, March 13–14, 1973. The work upon which this talk is based was sponsored by the National Science Foundation, under Grant GI–44.

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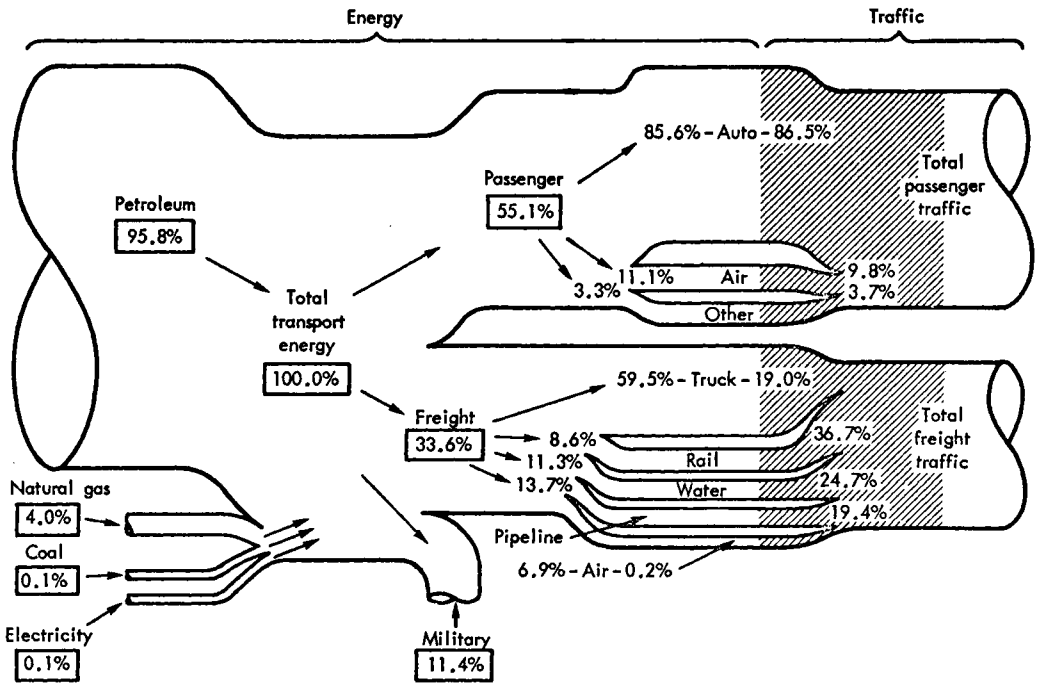
Fig. 1

TRANSPORT ENERGY USE AND MODAL SHARES (1970)



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Santa Monica, CA.

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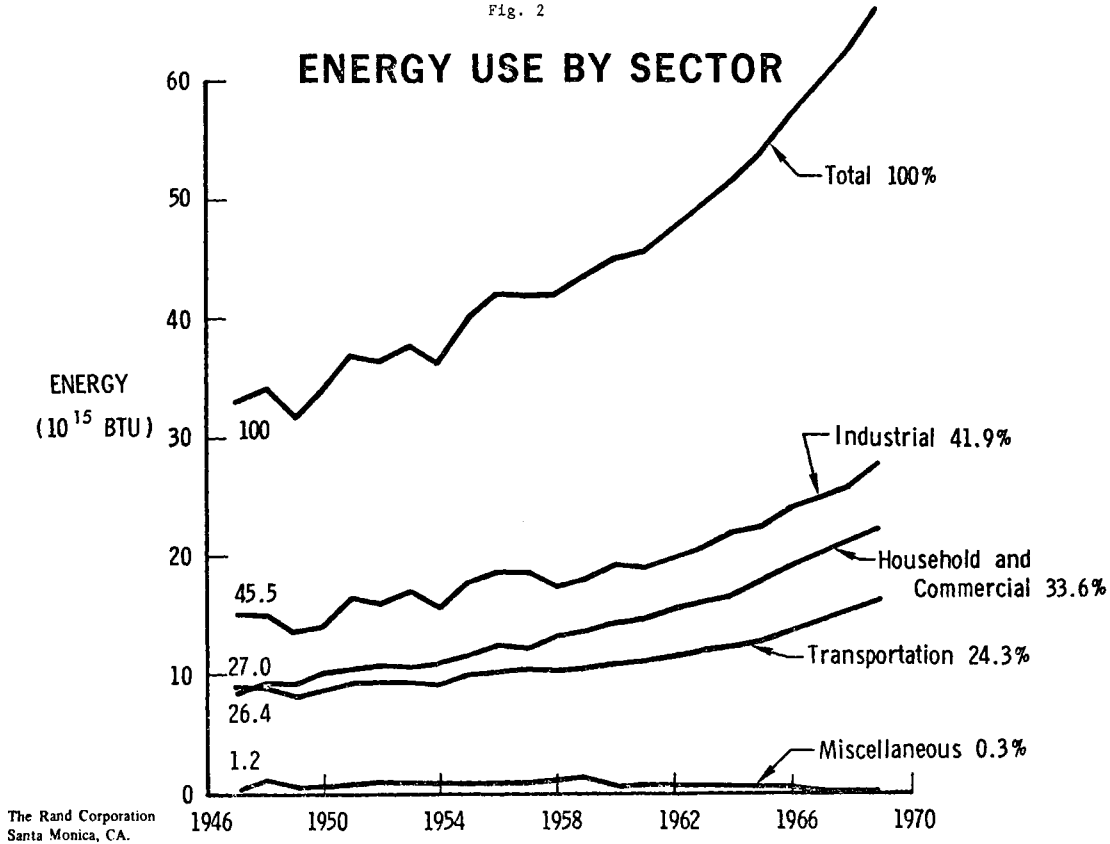
Fig. 2



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Now let's return to Fig. 1 to see where the energy is used. The two biggest users in 1970 are obviously automobiles and trucks. These two modes consume about 71 percent of the total motive energy, and the remaining 29 percent is split among rail, water, pipelines, and aircraft. These last four modes are obviously much smaller users than the highway transport modes. However, now we must introduce a new term—energy intensiveness. This term defines the amount of energy used to deliver one ton-mile of freight, or one passenger mile of passengers. It tells us what we spend in the way of energy for what we get in the way of one unit of transportation. With this in mind, let's return to Fig. 1 to examine this concept, and let's particularly consider the transportation of freight. Note that while trucks use almost 60 percent of the energy used for freight, they handle only 19 percent of the total freight ton-miles. By the same token, while rail uses less than 9 percent of the energy used for freight, it handles almost 37 percent of the ton-miles. It is quite apparent that there are very large differences in the energy intensiveness of these modes. Fig. 3 shows a comparison of the modal energy intensiveness of the various freight modes, and differences of over 100-fold may be seen. Similar differences exist for passenger travel, but for the moment I'd like to confine the discussion to freight, since the points to be made are the same. All of these various modal intensiveness figures combine to yield an average energy intensiveness value for freight transport. As long as each mode has a constant share of the freight, this average won't change. But in the highly competitive transportation field, this is a very dynamic situation, and there is continual shifting among the modes. In recent years this has acted to increase the average energy intensiveness, as shown in Fig. 3, resulting from losses of traffic from rail to trucks, and from trucks and rail to air cargo. The extent to which this will continue is important in the future energy picture. One finds the same thing happening in the transport of passengers. From the standpoint of energy intensiveness, aircraft use more energy per passenger mile than cars do, and people are tending to use aircraft rather than cars for long trips, thus increasing the average intensiveness of passenger travel.

This rather dynamic change in the use of transport modes by both passengers and freight is illustrated in Fig. 4. Note that the highest growth has been by aircraft, which is the most energy intensive mode of all. If you think about it, it is hardly surprising. The growing prominence of air transport has kept it in the news in recent years. European charter flights are common, as are air routes to almost any town of size in the country. Airports proliferate, and super-sized airports have entered—and remain in—the controversial stage, as is well known in Florida.

Now let's put all of the above together in context so that we can try to see what is happening. First, you will recall that the use of energy for transportation is growing at an average annual rate of about 4 percent, in contrast to a population rate increase of about 1½ percent. Part of this differential is caused by small changes in individual modal intensiveness, such as lower gasoline mileage for cars, and a reasonable portion is caused by the shifting of both passenger and freight from low intensiveness modes to high intensiveness modes. But a sizeable factor is simply that the per capita transportation is increasing. Thus we have the compound effects of an increasing population that is traveling more every year, and switching to more energy intensive modes. The result is the four percent energy growth rate.

In conclusion, let me stress several points without making any recommendations.

First, the transportation sector consumes about 25 percent of our energy budget, but it need not. Over 96 percent of the passenger miles are carried by cars and planes at an average energy cost of 5450 Btu per pessenger mile, and almost 20 percent of the freight ton-miles are carried by trucks and planes at an average energy cost of 8820 Btu per ton-mile. In contrast, buses and trains consume about 1700 and 2620 Btu per pasenger mile, and mail and water freight consume about 750 and 500 Btu per ton-mile. There are choices which may be made to reduce the total share of the energy budget used by transportation.

Second, the growth rate of 4 percent results largely from continuing shifts to higher intensiveness modes, and sizeable increases in per capita transportation. Changes in either or both could reduce this rate.

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Fig. 3

APPROXIMATE AVERAGE ENERGY INTENSIVENESS OF VARIOUS FREIGHT MODES

FREIGHT MODE	ENERGY INTENSIVENESS (Btu per ton-mile)
WATERWAY	500
RAIL	750
PIPELINE	1,850
TRUCK	2,400
AIR CARGO	63,000

YEAR	AVERAGE ENERGY CONSUMPTION (Btu per ton-mile)
1960	1288
1961	1316
1962	1325
1963	1333
1964	1338
1965	1346
1966	1356
1967	1389
1968	1398

Ref: Rand R-804-NSF

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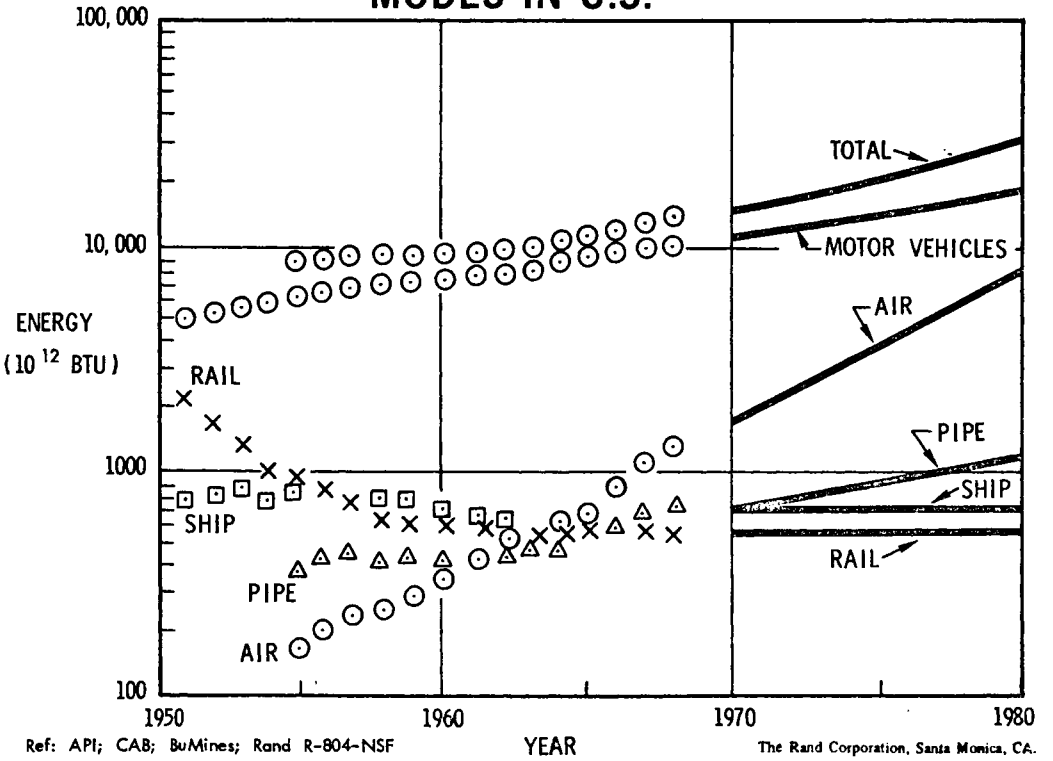
Fig. 4

ANNUAL ENERGY CONSUMED BY ALL TRANSPORT MODES IN U.S.



Ref: API; CAB; BuMines; Rand R-804-NSF

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The questions to ask are easy. The future use of energy for transportation simply boils down to questions of how much transportation do we each want, and what transport modes are we willing to accept. In considering these questions, we must also own up to how much of the environment we wish to dedicate to the transportation system, in the way of air, land, and other resources, and how, in fact we wish to structure where we live and work, and what we wish to do with our leisure time. The questions are easy, but the answers are not.

REFERENCES

R-804-NSF, Mooz, W. E., *The Effect of Fuel Price Increases upon the Energy Intensiveness of Freight Transport.*

Mutch, J. J., *Energy Use in U.S. Transportation: A Brief History, 1955-1970,* to be published.

PP-4935, Mooz, *Growth Rates Within the Transportation Sector.*

Hirst, Eric, *Energy for Transportation,* a talk presented at the Environmental Quality Laboratory Conference, "Energy as a Scarce Resource," Pasadena, California, December 1972.

MAY 7, 1973

MEMORANDUM

To: Senate Committee on Banking, Housing and Urban Affairs.

From: Alex Radin, general manager, American Public Power Association.

Subject: Shortages of Fuel Oil for Local Public Power System Generating Plants.

The fuel shortages, which have plagued widely scattered areas for some months now, are predicted to intensify and become much more general in future months. The impact of such shortages can be quite disruptive and cause serious consequences if ways are not found to minimize shortages to essential public services such as electric power generating stations.

In recent months, electric utilities have most commonly experienced difficulty in securing adequate supplies of fuel oil. The shortage of fuel oil has been aggravated by the fact that it is often the only alternate fuel of these utilities which are being denied the continued use of natural gas as the nation strives to conserve this environmentally superior fuel for other uses.

The rate of increase in the demand for electric power, and difficulties with increasingly complex technologies used in the provision of electric power, have combined to reduce the level of reserve electric generating capacity in some areas.

Regional electric power shortages and relatively large-scale power blackouts in some areas of the country in recent years have focused public attention on the degree of our reliance on electric power and the importance of maintaining reliability of electric service. Electric energy is essential for the operation of the American economy. Interruptions of electric service cause far-reaching disruptions of virtually all economic and social activities. Many machines and devices powered by energy forms other than electricity are, nevertheless, dependent upon electrically activiated controls and are rendered inoperative by electric power failures.

Current and predicted shortages of environmentally acceptable fuels pose a threat to the reliability of electric service in many local areas, and can pose intolerable additional burdens on regional reserve generating capacities. There is need for a formal allocation system to insure that fuels in short supply are made available on a priority basis to electric utilities and other providers of essential public services.

Since January 1, 1973 the American Public Power Association has received notice of fuel supply problems and requests for assistance from local publicly-owned eletcric utility systems in twelve separate states. Some of these problems have been temporarily resolved, while others remain unchanged or have worsened since first called to our attention. Those utilities which have been able to find temporary solutions to their fuel supply problems have typically been required to pay substantially higher prices for fuel.

The twelve states from which APPA has recently received fuel supply problem reports are: California, Florida, Iowa, Kansas, Louisiana, Maryland, Michigan, Minnesota, Missouri, Nebraska, Texas and Utah. Based upon all

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the information available to APPA at this time, from press reports, comments by public officials, and information offered to our member utilities by fuel suppliers, we are of the opinion that fuel supply problems are likely to worsen and spread to utilities in many other states.

An example of the serious proportions of the fuel supply problem facing electric utilities is provided by the nation's largest municipally-owned electric utility, the Los Angeles Department of Water and Power. Last year, the Department of Water and Power used 7.9 million barrels of fuel oil and anticipates this year's needs at 17.8 million barrels. A recent request for bids on 1.5 million barrels of fuel oil for emergency supply, and for delivery in May, June and July, resulted in offers of only 500,000 barrels—one third of that desired.

The Department had contracts with Atlantic Richfield through the 1972-73 winter for over 900,000 bbls. a month. These contracts terminated at the end of March. The Departments has a separate contract with Atlantic Richfield for 500,000 bbls. a month; this contract runs for two years, starting this month, and will provide about 30% of the Department's 1973-74 needs. Atlantic Richfield has been supplying about 60-65% of the Department's needs.

The Department has also been buying from Phillips at the rate of 250,000 bbls. per month, or about 16% of its winter need, or 25% of its annual requirements in 1972. That contract expired March 31, 1973. Phillips says it will not be submitting a new bid because it has sold available oil to Pacific Gas and Electric Company.

The City of Los Angeles has suspended the requirement for competitive bidding to allow the Department to negotiate for new oil supplies. This action allowed the Department to make an emergency purchase this month of 400,000 bbls. of oil from Coastal States Marketing in Houston at a price of $6.60 per bbl. The Coastal States price of $6.60 per bbl. compares to a recent range of $5.30 to $5.94 bbl. for purchases from established suppliers. Atlantic Richfield, Phillips, Union, Shell, Texaco, and Standard have all indicated to the Department that no matter what the price, there is no oil.

If the Department cannot obtain the low sulfur oil it is required to burn to meet local air pollution control requirements, by June it is estimated that it will be required to curtail electric energy production by as much as 20% depending on its ability to find supplemental sources of power and energy, e.g., from the Pacific Northwest. This figure could rise to 50% in the winter, when less natural gas is available.

In a letter to Mobil Oil Corporation dated April 24, 1973, Robert W. Phillips, General Manager and Chief Engineer of Los Angeles Department of Water and Power, stated:

"Without any new sources of fuel oil, the Department will reach a point in late summer or early fall where its oil supply will be substantially less than its oil requirements. A further reduction of our gas supply will occur about the same time. In view of this situation, curtailment of electric service to our customers should be anticipated about September 1, 1973."

Unfortunately, the Pacific Northwest is currently facing the worst hydroelectric power shortage in 33 years due to sparse rain and light snowpack. Bernard Goldhammer, Bonneville Power Administration assistant administrator for power management, recently commented, "It's a grim situation that people just can't understand. Industry is already affected and we could possibly have residential cutbacks next fall." Goldhammer said that reservoirs aren't being filled and that the BPA system is producing substantially less power than at this time last year. "Uusually, we can sell a surplus of about 2 million kw to California," Goldhammer said, "but this year we will have trouble holding our own."

On May 4, 1973, Mr. William H. Corkran, Jr., General Manager of the Easton Utilities Commission of Easton, Maryland, wrote urgently requesting APPA's assistance in obtaining fuel oil for the Easton generating plant. Mr. Corkran informed me:

"At the present time 14:00 hours, May 4, 1973, we have 151,186 gallons of fuel oil available in our storage facilities, with absolutely no assurance from any petroleum company or fuel oil supplier of any additional fuel oil from this date forward.

"*Our position is simply this:* With fuel oil which we now have in storage and operating our electric utility to cover our own customers electrical re-

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quirements, we can operate our generating plant for only *seventeen* (17) *days*. If we operate our system in a normal interconnected mode, we have enough fuel oil to operate our plant for only *fourteen* (14) *days*.

"We are writing you in the hope that you may be able to *urgently* request those responsible Federal officials who may in some way assist our utility in obtaining necessary fuel oil for the operation of our generating plant beyond the fourteenth day (2 weeks) from this date."

The complete text of Mr. Corkran's letter together with its attachments is enclosed.

In an April 11 letter to President Nixon's special consultant on energy matters, Charles DiBona, I related the facts of the critical fuel supply shortage facing the Los Angeles Department of Water and Power and then commented:

Press reports indicate that some oil companies have already instituted their own allocation programs which may or may not serve the broad public interest. The situation faced by the Department of Water and Power and other member utilities of our Association demonstrates, I believe, the need for some agency within the Federal government which would have the authority to assist entities providing essential public services, such as electric utilities, to obtain needed quantities of fuel.

In short, it would appear to be necessary to have some type of Government allocation system that lays down generally acceptable guidelines, that is equitable to all parties, and that seeks to protect the public interest. At the very least, some Federal agency should have authority to provide emergency assistance to necessary fuel consumers such as hospitals, police and fire departments, etc.

My plea for a formal allocation system to protect the public interest in time of fuel shortage is echoed in a recently adopted resolution of the Utilities Section of the League of Nebraska Municipalities (copy of complete resolution attached): Be it further

Resolved, That if sufficient fuel can not be obtained on a voluntary basis for essential purposes such as electric utilities, that the Federal government institute a mandatory allocation system to accomplish this purpose, . . .

RESOLUTION OF THE UTILITIES SECTION OF THE LEAGUE OF NEBRASKA MUNICIPALITIES

Whereas, there has developed a shortage of natural gas and fuel oil, and

Whereas, this fuel shortage has been felt in many local communities of Nebraska, and

Whereas, local municipal electric generating plants use either diesel fuel, or a combination of diesel fuel and natural gas in the production of electricity, and

Whereas, gas pipeline companies have advised these municipalities that their gas supply may be further curtailed, and

Whereas, fuel oil suppliers have advised many municipalities that they will not renew contracts to furnish fuel oil in sufficient quantities to meet their needs, and

Whereas, fuel oil is not otherwise available except spot purchases which may not be ample, and

Whereas, practically all home and commercial establishments now use natural gas, fuel oil, propane or electricity for heat, and

Whereas, this heating equipment is so designed that it must have electrical energy in order to operate, and

Whereas, electric generation has been given a low priority for natural gas as fuel, Now therefore be it

Resolved, That the Utilities Section of the League of Nebraska Municipalities request assistance from the Federal and State governments to assure an adquate supply of fuel to operate the electric generating plants so as to avoid disastrous consequences to the health and welfare of their various communities, and Be it further

Resolved, That one or the other of the two fuels be given a high priority for electric generation since no other fuel can be used in their plants, and Be it further

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Resolved, That if sufficient fuel can not be obtained on a voluntary basis for essential purposes such as electric utilities, that the Federal government institute a mandatory allocation system to accomplish this purpose, and Be it further

Resolved, That a copy of their resolution be sent to the President of the United States, to the Nebraska Congressional Delegation, to the Governor of the State of Nebraska, to the General Manager of the American Public Power Association, and to the Secretary of the National League of Cities.

THE EASTON UTILITIES COMMISSION,
Easton, Md., May 4, 1973.

MR. ALEX RADIN,
General Manager
American Public Power Association
Washington, D.C.

DEAR ALEX: On April 13th, 1973, we solicited proposals from twenty-three petroleum companies and local fuel oil suppliers for furnishing one year's supply (approximately 3,600,000 gallons) of Diesel Fuel Oil for the Electric Department of the Easton Utilities Commission.

We stated that proposals would be received and publicly opened at our business office in Easton at 7:30 p.m., April 23, 1973. *No* bids or proposals were received.

We did however receive some letters in reply to our request for bids on April 23rd and two letters dated subsequently to our stated time and date for receiving bids. I am attaching copies of these letters as well as a copy of the names of the suppliers from whom we requested proposals.

At the present time 14:00 hours, May 4, 1973, we have 151,186 gallons of fuel oil available in our storage facilities, with absolutely no assurance from any petroleum company or fuel oil supplier of any additional fuel oil from this date forward.

Our position is simply this: With fuel oil which we now have in storage and operating our electric utility to cover our own customers electrical requirements, we can operate our generating plant for only *seventeen* (17) *days*. If we operate our system in a normal interconnected mode, we have enough fuel oil to operate our plant for only *fourteen* (14) *days*.

We are writing you in hope that you may be able to *urgently* request those responsible Federal officials who may in some way assist our utility in obtaining necessary fuel oil for the operation of our generating plant beyond the fourteenth day (2 weeks) from this date.

Sincerely,

WILLIAM H. CORKRAN, JR.,
General Manager.

REQUESTS FOR QUOTATIONS SENT TO THE FOLLOWING

Max Waller Co., Inc., Munsey Building, Baltimore, Md.
Texaco, Inc., 3800 Fourth Avenue, Brooklyn, Md.
Shell Oil Co., 200 E. Joppa Road, Baltimore, Md.
Hess Inc., 6200 Pennington Avenue, Baltimore, Md.
Gulf Oil Co., U.S., P.O. Box 2235, Baltimore, Md.
Cities Service Oil, P.O. Box 6816, Baltimore, Md.
Sun Oil Co., P.O. Box 487, Marcus Hook, Pa.
Southern States Cooperative, Petroleum Service, 627 East Main Street, Richmond, Va.
Exxon Co. USA, P.O. Box 1288, Baltimore, Md.
Getty Oil Co., 1617 John F. Kennedy Boulevard, Philadelphia, Pa.
Union 76 Division, Union Oil Co. of California, 630 East Broad Street, Columbus, Ohio.
BP Oil Corp., 401 Farragut Street NE., Washington, D.C.
The Atlantic Richfield Co., Atlantic Division, 505 South Market Street, Wilmington, Del.
Delmarva Oil Inc., Salisbury, Md.
Cirillo Bros. Sales Corp., 149th Street and East River, Bronx, N.Y.

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Mobil Oil Co., 4 Penn Center Plaza, 16th and John F. Kennedy Boulevard, Philadelphia, Pa.
McMahan Oil Co. (Amoco), P.O. Box 1205, Easton, Md. Phone: 822–2000.
BP Oil Corp. (BP), Easton Point, Easton, Md. Phone: 822–1366.
Cox Distributing Co. (Sun), East Brookletts Avenue, Easton, Md. Phone: 822–0300.
John H. Pigman Inc. (Getty), Commerce Street, Cambridge, Md.
Russ Oil Co. Inc. (Gulf), Easton Point, Easton, Md. Phone: 822–3535.
J. E. Meintzer & Sons Inc. (Texaco), P.O. Box 666, Easton, Md Phone: 822–2560.
Southern States Talbot Petroleum Service, Easton Point, Easton, Md. Phone: 822–0160.

TEXACO, INC.,
Baltimore, Md., May 1, 1973.

MR. R. C. JUDD,
Deputy General Manager,
The Easton Utilities Commission,
Easton, Md.

GENTLEMEN: Reference your letter of April 13, 1973 in which you requested a quotation on your yearly requirements of 3,600,000 gallons Diesel Fuel.

We are not in a position at this time to quote you on your requirements of Diesel Fuel. Your request of April 13th was received in this office on April 19th, therefore we were unable to reply by the specified time, 7:30 P.M., EST on April 23, 1973. In order that we might be in a position to consider future requests from your office we would appreciate a lead time of approximately 20 days. Kindly keep our name on your list for request for quotations.

Yours very truly,

C. M. SWAIN, JR.

EXXON, CO., USA,
Baltimore, Md., April 25, 1973.

MR. R. C. JUDD,
The Easton Utilities Commission,
Easton, Md.

GENTLEMEN: This is in reply to your request of April 13, 1973 for a quotation for your 3,600,000 gallons of Diesel Fuel for the coming 12 month period.

We sincerely regret that we are not in a position at this time to offer you a proposal.

Very truly yours,

J. J. FURJANIE.

BP OIL CORP.,
Baltimore, Md., April 23, 1973.

MR. R. C. JUDD,
The Easton Utilities Commission
Easton, Md.

GENTLEMEN: We wish to thank you for the opportunity to bid on your petroleum requirements for the coming year.

Although we are unable to submit a bid at this time, we shall welcome the opportunity to do so next year.

Very truly yours,

R. A. STRAUB,
Baltimore Division Manager.

DELMARVA OIL,
Salisbury, Md., April 23, 1973.

MR. R. C. JUDD,
Deputy General Manager,
The Easton Utilities Commission,
Easton, Md.

DEAR MR. JUDD: Please accept my thanks for your extending to us the opportunity to submit a proposal on your coming year's fuel requirements. It is appreciated.

At this time, however, with the ever-changing supply situation, we will be unable to offer a quotation. At present, it seems we will have enough fuel oil

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for the coming year and if you do get in a serious situation, we will at that time be glad to assist you in any way we can.

Again, many thanks for your consideration.

Very truly yours,

D. H. DENNIS,
General Manager.

MCMAHAN OIL CO.,
Easton, Md., April 23, 1973.

MR. R. C. JUDD
Easton Utilities Commission
Easton, Md.

GENTLEMEN: We wish to acknowledge receipt of your letter asking for proposal to furnish diesel fuel oil for one year FOB your storage tanks located at 219 N. Washington St., Easton. According to your letter you will require 3,600,000 gallons.

It is with deep regrets that we are not in a position to bid on your requirements at this time since our source of supply is uncertain. We do not know what the supply situation will be in a year from now but we hope to be able to submit a price to you then.

We are very appreciative of your past business and are very sorry we are unable to bid at this time. I have no control over our supply under the circumstances.

Very truly yours,

D. H. McMahan,
President.

GULF OIL CO.—U.S.,
Baltimore, Md., April 19, 1973.

EASTON UTILITIES COMMISSION,
Easton, Md.

GENTLEMEN: Reference is made to the telephone conversation received in this office on Wednesday, April 18, 1973 wherein we were informd that your original bid request was returned because of improper address. We have been advised by telephone that you have a requirement for three million, six hundred thousand (3,600,000) gallons of 45 Cetane #2 Diesel Fuel Oil. The aforementioned quantity is to be delivered in approximately equal monthly liftings to your facility at Easton, Maryland for the yearly period commencing May 1, 1973.

We regret to advise you that we are not in a position to quote on your requirements at this time.

Let us take this opportunity to thank you for considering us as one of your suppliers and hope that we may be of service to you at some future date.

Very truly yours,

J. H. GAUL, *Director.*

SHELL OIL CO.,
Baltimore, Md. April 17, 1973.

Mr. J. D. JUDD,
Deputy General Manager
Easton Utilities Commission,
Easton, Md.

GENTLEMEN: This will acknowledge your letter of April 13, 1973 to our office concerning Diesel Fuel.

Our current supply position is such that we must decline to bid on your requirements. Thank you for considering Shell as a potential supplier.

Very truly yours,

E. J. REMSON,
District Manager.

ATLANTIC RICHFIELD CO.,
Haddonfield, N.J., April 17, 1973.

Mr. R. C. JUDD,
The Easton Utilities Commission,
Easton, Md.

DEAR MR. JUDD: Reference is made to your letter of April 13, 1973 to our office in Wilmington, Delaware.

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It is with regret that I find it necessary to inform you that we do not have adequate product available through our Salisbury Terminal to be able to serve you.

Would you kindly keep ARCO on your bid list since there are always prospects for changing supply avails.

Very truly yours,

T. L. WALLACE,
Manager, Capitol Zone.

GETTY OIL CO.,
Philadelphia, Pa., April 17, 1973.

Mr. R. C. JUDD,
Deputy General Manager,
Easton, Md.

GENTLEMEN: We appreciate having been afforded the opportunity of submitting a quotation covering your requirements of Diesel Fuel Oil for bid opening April 23, 1973, but regret of our inability to do so at this time.

Cordially yours,

W. D. EVANS,
Acting Wholesale Sales Manager.

PETROLEUM INDUSTRY RESEARCH FOUNDATION, INC.

THE NEAR-TERM OUTLOOK FOR GASOLINE AND ITS IMPACT ON INDEPENDENT MARKETERS

Introduction

This study has been undertaken at the request of the *Independent Oil Men's Association of New England* whose members are independent marketers of branded and unbranded gasoline in the six New England states. The study includes therefore special references to the New England gasoline market, where appropriate. But, as explained below, this market can only be analyzed as part of the larger U.S. gasoline market. Our report is therefore primarily concerned with the entire gasoline market east of the Rocky Mountains.

The Scope of the Market

The U.S. gasoline market east of the Rocky Mountains (PAD I–IV) must be viewed as a single integrated interdependent unit. The principal reason for this lies in the fact that historically U.S. refining capacity has been heavily concentrated in the Southwest (PAD III), principally the U.S. Gulf Coast. Currently Gulf Coast and othe PAD III refineries account for 49% of total gasoline production in the four PAD's. The location of these refineries was of course determined by access to local crude oil rather than to local markets. Consequently, the bulk of their output is exported by pipeline, tanker and barge to other parts of the country. Thus, in 1972 67% of the East Coast's (PAD I) gasoline supply came from refineries in PAD III. While the East Coast has local refineries, the principal growth in gasoline supplies in this market has come from PAD III refineries, primarily those located on the Gulf Coast. This is clearly shown in the table below.

TABLE 1.—PAD I GASOLINE SUPPLIES

[In thousand hours per day]

	1972	1965
Local production	712	664
Imports	68	25
Net Movements from PAD III	1,442	1,031
Other[1]	(−61)	(−142)
Total	2,161	1,578

[1] Includes movements to and from other districts as well as stock changes.

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In addition PAD III supplies approximately 10% of PAD II's 1972 gasoline demand and could potentially supply a considerably larger share, particularly if crude oil remains tight for inland refiners in the Midwest.

The need for all major markets to rely on the same supply source for part of their gasoline requirements underlies the above mentioned interdepnedency of this market. The long-term restriction on the importation of gasoline has further unified the market by insulating it from foreign market influences.

It is therefore not possible to analyze the economics of any one segment of the U.S. gasoline market separately, without reference to the market as a whole. Thus, this report will deal primarily with the existing and projected supply-demand situation in PAD I–IV as a whole, for the availability of gasoline throughout the entire market is the principal determinant of its availability in submarkets such as New England.

Nevertheless, some statistics to indicate the magnitude of the New England gasoline market and, therefore, the magnitude of the supply problem it faces may be in order by way of introduction.

The New England Gasoline Market

For the 6-year period 1965–71, New England gasoline consumption grew at an average annual rate of 4.7%, approximately matching the rate of growth for PAD I–IV as a whole. In 1972, on the basis of partial information, the growth rate rose sharply—to 5.8% to reach a total volume of 5.2 billion gallons (339,000 b/d). The same exceptional demand increase last year was registered throughout the four PAD Districts. In PAD I–IV demand in 1972 reached 83 billion gallons (5,439,000 b/d). Thus, New England accounted last year for about 6.25% of total gasoline demand east of the Rocky Mountains. Our short term projection assumes that between 1972 and 1975 both the total PAD I–IV market and the New England market will grow faster than at their recent historic rates. We estimate conservatively an average annual growth of 5.3% for both markets. This would put New England gasoline consumption for 1975 at 6.1 billion gallons.

The distribution of gasoline in New England by type of marketers was as follows in 1969, according to a study made by the Independent Oil Men's Association of New England.

TABLE 2.—NEW ENGLAND GASOLINE SALES, 1969

[In thousands of gallons]

		Percent
Branded gasoline	4,037,955	
Refiner distributors	3,169,401	71.0
Independent distributors	868,554	19.5
Unbranded gasoline	424,074	9.5
Total	4,462,029	100.0

No comparable figures are available for subsequent years. But a sampling of tax receipts in November 1972 indicates that the total "independent" segment of the market (independent distributors of both branded and unbranded gasoline) may have grown to 33–35%, compared to 29% in 1969. According to all indications, the growth occurred primarily in the unbranded gasoline sector which may currently account for as much as 15% of the total market.

No comparable figures are available for Districts I–IV as a whole. However, based on discussions with industry representatives we would estimate that the "independent" segment (again both branded and unbranded) would account for at least 30% of the gasoline market. This segment would be divided almost equally between the branded independent and the unbranded independent.

Recent Trends in the Gasoline Market in PAD I–IV

In the last several years gasoline demand has regularly risen at a markedly faster rate than the output of refineries. As the table below shows, from 1968 through 1972 gasoline demand rose at an annual rate of 5.0% while refinery

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runs (the volume of crude oil processed by refineries) rose by 3.0%. In part, this reflects the fact that gasoline demand rose more rapidly than that of middle distillates.

TABLE 3.—PAD I–IV

[In thousand barrels per day]

	1968	1972	Average annual increase (percent)
Motor gasoline demand	4,482	5,439	5.0
Refinery crude oil runs	8,770	9,845	3.0

In order to meet this divergent demand pattern between gasoline and other products, refiners steadily increased the gasoline yield per barrel of crude oil—from 43.8% in 1968 to 46.9% in 1972. This method of tailoring gasoline output to market demand is of course only possible as long as the output of the other refined products is also in line with market demand. Through 1971 this was approximately the case. In 1972 however, an unusually sharp increase in the demand for distillate fuel oil greatly limited the refiners' ability to meet the rise in gasoline demand through yield increases of that product. In consequence a temporary shortage of gasoline developed in the summer and early fall of 1972. However, since U.S. refineries still had excess producing capacity throughout 1972, the shortage was largely overcome in the fourth quarter by increasing crude runs by 6.2% above the comparable quarter of the previous year.

The Outlook for 1973

As a result of the exceptionally cold weather in the fourth quarter of 1972, distillate fuel oil stocks at the end of that quarter were considerably below their normal level. Thus, in order to avoid a possible heating oil shortage in the first quarter of 1973, refiners in PAD I–IV increased their yield of this product to the record level of 28% [1] according to preliminary figures. However, in order to do this, gasoline yields had to be reduced to 44%,[2] a drop of 2.4 percentage points over a year ago. Assuming refinery runs at 91% of capacity, this would mean an increase in gasoline output of about 2% above the first quarter of 1972. This is clearly less than the expected demand increase. Consequently, we must assume a decline in gasoline stocks in the first quarter to around 190 million barrels, compared to more than 210 million barrels in recent previous years. We will therefore enter the main gasoline consuming season (the 2nd and 3rd quarter) with inadequate stocks. If we assume a 5.6% increase in gasoline demand for 1973 (slightly less than last year's 5.7%) and a record average gasoline yield of 48% in the last three quarters of the year, and no appreciable increase in imports above last year we would be faced with a very tight gasoline supply situation in the second and third quarter, as is shown by the derived inventories at the end of each of these quarters in the table below.

TABLE 4—GASOLINE SUPPLY AND DEMAND, PAD I–IV, 1973 [1]

	1st Quarter	2d Quarter	3d Quarter	4th Quarter	Year
Total new supplies:					
Thousand barrels per day	5,354	5,791	5,945	5,893	5,751
Demand (thousand barrels per day)	5,350	5,895	6,060	5,819	5,783
Stocks end of quarter (million barrels)	191	181.4	170.8	177.6	
Days supply: [2]					
1973	32.4	29.9	29.4	31.7	
1972	38.1	31.4	32.7	35.6	
1971	42.0	35.2	36.0	39.2	
1970			35.7	39.6	

[1] Includes aviation gasoline.
[2] Defined as end of quarter stocks divided by the average of the next quarter demand.

[1] Distillates here includes kerosene.
[2] Includes aviation gasoline.

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In terms of the number of days of supply, these inventories will be significantly lower than last summer and fall. Yet, we know that last year's inventories were abnormally low. We estimate the shortage at about 125,000 b/d for the second and third quarter, or about 2% of total gasoline demand.

The tightness cannot be alleviated by increasing crude oil runs, since under our assumption refineries by mid-year will be operating at above 92% of their rated capacity which is believed to be their maximum sustained operating ability. Thus, the shortage can only be avoided by one of two actions or a combination of both: An increase in imports or a further increase in the gasoline yield. The second alternative is technically possible—refiners could increase gasoline yields by perhaps another 3 percentage points, with each point representing about 100,000 b/d of gasoline—but it would of course result in a corresponding decline in kerosene and distillate fuel oil output. Since the demand for these latter products is expected to be strong, any decline in the kerosene-distillate yield would lead to a shortage of that product, unless offset by substantial additional imports. In other words, the only real choice available to the industry if a shortage is to be avoided is between increased imports of gasoline and increased imports of distillate fuel oil.

Table 5 below shows the gasoline supply and demand position by quarters for 1973, based on the assumed minimum stock levels required to avoid a shortage. It can be seen that import requirements in the second and third quarter would be in excess of 200,000 barrels daily, or about three times the volumes imported in the comparable period of the previous year.

[In thousand barrels per day]

Gasoline aviation	1st quarter	2d quarter	3d quarter	4th quarter	Year

TABLE 5.—PAD I—IV—1973

[In thousand barrels per day]

Gasoline-aviation	1st quarter	2d quarter	3d quarter	4th quarter	Year
Refinery runs (crude plus unfinished)	10,375	10,474	10,613	10,613	10,520
Gaso-aviation yields	44.0	48.0	48.5	47.5	
Refinery output	4,565	5,027	5,147	5,041	4,947
NGL	789	749	772	825	784
Refinery output, total	5,354	5,776	5,919	5,866	5,731
Imports	75	221	211	70	144
Net to V	−75	−70	−59	−58	−65
Supply	5,354	5,927	6,071	5,878	5,810
Demand	5,350	5,895	6,060	5,819	5,783
Stock change (million barrels)	+.4	+2.9	+1.0	+5.4	+9.8
Stocks, end of quarter (million barrels)	191	193.9	194.9	199.3	
Days supply, [1] 1973	32.4	32.0	33.5	35.6	

[1] End quarter stocks divided by next quarter demand.

We consider it unlikely that the levels of gasoline imports shown in table 5 can be obtained on a sustained basis over the next four to six months. The question of foreign gasoline availability will be discussed in more detail in a later section of this report but the point should be made here that foreign supplies are currently very tight and prices very high. Hence, it should be assumed that only part of the deficit immediately facing the industry can be met through increased imports.

The deficit could probably be eliminated if in addition to higher imports, gasoline yields of domestic refiners could be raised by about 1–1½% percentage points above the 48% level assumed in our analysis of the supply and demand position for 1973. As pointed out, such an increase would require a correspondingly higher level of distillate fuel oil imports. Given the fact that middle distillate yields in foreign refineries are generally about twice as high as gasoline yields, it may be somewhat easier to import an additional 100,000 b/d of

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middle distillates during the remainder of this year than the same quantity of gasoline. It should be pointed out, however, that currently both foreign gasoline supplies and foreign distillate fuel oil supplies are in relatively short supply.

The Outlook Beyond 1973

For the year 1974 and 1975 our supply-demand forecast is shown in table 6, together with the actual situation in 1972 and the projected outlook for the current year. For both years we have made two forecasts: Forecast (A) is moderately more optimistic on domestic refinery capacity and output than forecast (B); all other numbers—except imports which is the balancing item to match supply and dmand—are the same in both forecasts. Forecast (A) may be achieved if refinery down time is kept to an absolute minimum, and if capacity can be increased in 1975 through efficiency improvements; Forecast (B) makes a slightly larger allowance for down time and assumes no further capacity increase after 1974. Gasoline yields in both years are 48%, about one percentage point higher than in 1972 and 1973. The required stocks are kept at a level equal to 34.8 days of actual demand for both 1974 and 1975. This was the actual stock level attained at the end of 1972 when a near-shortage was registered. We know that in previous years comparable stock levels generally fluctuated between 38 and 40 days of demand. Since it cannot be assumed that the industry persistently kept higher stock levels than required for smooth operating purposes, last year's 34.8 day level is probably the lowest level at which operations can be carried on without threat of interruptions.

Table 6 shows that we will require 237,000–265,000 b/d of imports in 1974 and 478,000–572,000 b/d in 1975. As will be pointed out below, we consider an import level of 300,000 b/d the maximum that can be realistically expected for the year 1975. Thus, a physical shortage of 3% to 5% of total demand in PAD I–IV is likely in 1975. While the price mechanism, if allowed to operate freely, would probably greatly reduce the shortage, the very low price elasticity of gasoline demand would require a very sharp increase in price—to balance supply and demand. Given the essentiality of gasoline for most Americans, such an increase may generate considerable political resistance. The only alternative would be voluntary or compulsory rationing which is also not exactly in favor among the public.

PAD I–IV.—GASOLINE SUPPLY AND DEMAND 1972–75

[In thousand barrels per day]

	1972	1973	1974 (A)	1974 (B)	1975 (A)	1975 (B)
Supply-demand I–IV:						
Refinery capacity	11,200	11,350	11,500	11,500	11,650	11,500
Runs	9,845	10,410	10,638	10,580	10,776	10,580
Percent	(89.7)	(91.7)	(92.5)	(92.0)	(92.5)	(92.0)
Unfinished	102	110	110	110	110	110
Refinery input (excluding NLG's)	9,947	10,520	10,748	10,690	10,886	10,690
Gasoline yields (motor plus aviation), percent	46.9	47.0	48.0	48.0	48.0	48.0
Gasoline (motor plus aviation):						
Refinery output	4,665	4,947	5,159	5,131	5,225	5,131
Natural gas liquids	789	784	780	780	780	780
Total refinery output	5,454	5,731	5,939	5,911	6,005	5,911
Imports	68	145	237	265	478	572
Net flow to and from PAD V	(−67)	(−64)	(−64)	(−64)	(−64)	(−64)
Supply	5,455	5,813	6,112	6,112	6,419	6,419
Demand	5,473	5,783	6,083	6,083	6,390	6,390
Change in stocks (million barrels)		(+10.8)	(+10.4)	(+10.4)	(+10.7)	
Stocks end of year (million barrels)	190.5	201.3	211.7	211.7	222.4	222.4
Days supply: [1] 1965, 40.3; 1970, 38.0; 1971, 38.2	[2] 34.81	34.81	34.81	34.81	34.81	34.81

[1] End period stocks divided by average demand for year. 1972 ratio of 34.81 days supply was held constant in 197 period.
[2] Actual.

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Import Capability of Gasoline

Gasoline imports have historically played a very minor role in supplying the U.S. Market. In 1971, the last year in which domestic supplies were considered adequate, total gasoline imports—all of it going to the East Coast—amounted to 59,337 b/d, equal to about 1% of total demand in PAD I–IV. Of the imports 94% came from Puerto Rico, the rest primarily from the Virgin Islands. Virtually all shipments from Puerto Rico were accounted for by two refiners there—Commonwealth Oil Refining and Phillips Petroleum—who together hold special import quotas for 58,000 b/d of finished products into the U.S. mainland. All shipments from the Virgin Islands came from Amerada-Hess.

In 1972 imports from Puerto Rico remained unchanged but there was a fourfold increase in shipments from the Virgin Islands and other overseas sources to a record of 13,000 b/d. Total gasoline imports last year amounted to 68,000 b/d.

Thus, for practical purposes, the U.S. has not been an importer of gasoline in significant quantities from outside U.S. territory until this year. The principal reasons were of course the quantitative import restrictions on gasoline, combined with the high import duty (1.25¢/gallon) on this product.[3]

The imports required in 1973, particularly in the second and third quarter, will be of such magnitude that they cannot be satisfied from the two U.S. offshore islands. The U.S. will therefore for the first time be in a position of having to depend on a relatively significant volume of gasoline from foreign sources to meet its domestic requirements. Unfortunately, this development coincides with a world-wide crude oil shortage which is preventing many foreign refineries from operating at desired levels of capacity. The crude oil shortage is considered to be of temporary duration. It is reported to be due primarily to lack of storage, pipeline and tanker berthing facilities in Saudi Arabia, the world's largest exporter and principal source of the incremental volumes required to maintain the growth in world oil demand. The crude shortage to be felt late in 1972 and has continued throughout the first quarter of this year. According to some sources, the shortage will be alleviated by mid-year; others feel it may well last into late fall.

One major effect of the shortage has been a very sharp increase in gasoline and other oil products prices. For instance, European prices for regular gasoline (91 octane) are currently $50/ton f.o.b. Italy and $54 f.o.b. Rotterdam, compared to $22 and $25 respectively a year ago—an increase of over 120%.

Given current freight rates, the Italian gasoline would lay down at the U.S. East Coast at about 17¢/gallon, duty paid. The price for gasoline from Rotterdam would be slightly higher. This compares with a posted New York harbor contract price of 13.75¢/gallon for U.S. regular gasoline (94 Octane). This latter gasoline is of course currently not available in the market except for contract sales which are in most cases quantity-restricted.

Since foreign gasoline prices usually rise seasonally during spring and early summer, the European gasoline export price can be expected to increase further in the near future, unless the crude oil shortage eases up considerably in which case a slight decline might be expected.

Aside from the high price, there is also the problem of physical availability. The crude oil limitations on most refineries outside the U.S. have had the effect of paralyzing the often considerable excess producing capacity of these refineries. Thus, western Europe currently has approximately 1 million barrels daily of excess refining capacity. On a smaller scale, the same is true for Caribbean plants. If sufficient crude oil were available, a part of this excess could be brought into operation to meet U.S. import requirements. Currently, this is not possible. As of this writing, it would therefore seem that available foreign gasoline supplies will not be sufficient to meet the requirements for the second-third quarter of 1973 foreseen in our table 5.

For the longer term—the period to 1975—we assume no crude oil supply restrictions. During this period about 1 million barrels daily of new refining capacity will come on stream in eastern Canada and the Caribbean. However, not all of this new capacity will be built for export purposes and not

[3] There is no import duty on gasoline shipments from Puerto Rico or from the Virgin Islands except for shipments brought in under Amerada-Hess' 15,000 b/d special import quota.

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all of it will have gasoline producing facilities. We are assuming that new export refining capacity with gasoline facilities will be 600,000 barrels daily by 1975. These refineries will be able to supply about 100,000 barrels daily of gasoline to the U.S. European excess refining capacity is likely to decline over the next 3 years. For 1975 we expect the volume of gasoline which can be exported from Europe to the U.S. without creating supply problems in the exporting countries to be about 100,000 barrels daily. Another 100,000 barrels daily may be obtained from refineries in Puerto Rico and the Virgin Islands which last year accounted for the bulk of our total imports of 68,000 barrels daily.

Thus, altogether an optimistic but still realistic forecast of U.S. access to imported gasoline in 1975 would be on the order of 300,000 barrels daily. As we saw in our supply and demand table, import requirements in that year will be 478,000 barrels daily—572,000 barrels daily, depending on our assumption. Possibly the shortage could be met by an increase in the domestic gasoline yield above the 48% assumed in our forecast. However, as pointed out earlier, this would require very substantial increases in distillate fuel oil imports. It is not certain that these increases will be available.

The Impact of the Gasoline Shortage on the Independent Marketers

As pointed out earlier, the independent segment of the U.S. gasoline market accounts for slightly more than 30% of the total, according to industry estimates. This share is made up of both "private brand" marketers and independent distributors of "branded" gasoline.

In a situation of insufficient overall gasoline supply, it is reasonable to assume that gasoline refiners will want to give preference to their directly owned or controlled market outlet. Thus, the independent gasoline marketer who buyers his product at arms length from a refiner is likely to feel the impact of the shortage more and earlier than the integrated market segment. In fact, evidence of this development can already be seen throughout PAD I–IV.

The impact has been especially severe for private brand marketers. They are the buyers and distributors of much of the refining industry's excess gasoline, that is the gasoline which a refiner can produce in excess of the volume needed to satisfy his integrated or other branded distribution channels. When there is excess refining capacity, as has generally been the case for the past 25 years, the existence of a private brand market enables the refiner to operate his plant at a more efficient rate without the need to expend capital to develop additional marketing outlets or the need to reduce the price for his branded product. However, in case of a sustained tightness of gasoline, as will be the case for the next several years, the integrated refiner can be expected to give priority to his own or controlled outlets in allocating gasoline supplies. Many unbranded gasoline distributors have already felt the impact of this allocation.

Similarly, when the gasoline shortage begins to affect the availability of branded gasoline, the refiner can be expected to reduce first his branded supplies to non-integrated outlets. Thus, a number of independent branded gasoline distributors have already been informed that their contractual volume this year will be either the same or less than last year. Since spot gasoline cargoes are currently not economically available, some of these distributors will have to curtail their operations.

To what extent the independent market segment will be affected by the shortage over the next three years depends of course on the scenario chosen. It is clear, however, that if the independents must increasingly rely on imports and if the cost of imports remains higher than domestic gasoline prices, the independents must raise their prices relative to those of the integrated distributors. This will cause them to lose market shares to integrated companies. While the extent of this loss is subject to speculation, one possible scenario is to assign all the growth in the market to the integrated refiners (the "majors") while maintaining the volume of the independent segment at its level of 1972. Needless to say, this is not a recommended scenario but it provides the opportunity to analyze the supply situation of the independents under a no-growth assumption until 1975. Assuming a 30% market share for the independents, the comparable figures for 1972 and 1975 will look as follows:

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[Thousand barrels per day]

	1972	1975	Growth rate percent
Independents	1,632	1,632	0.0
Integrated refiners	3,807	4,724	7.5
Total	5,439	6,356	5.3

Under Case (A)—the most optimistic supply case—in our table 6 (p. 12) we forecast that refiners in 1975 would produce 5,971,000[4] barrels daily of which 64,000 b/d would be shipped to PAD V. After meeting the entire demand of the integrated companies this would leave 1,183,000 b/d for the independents or 449,000 b/d less than they will require even under our no-growth assumption for this group. Thus, in order to maintain their existing level of operations they would have to import about 450,000 b/d in 1975. Additional imports of 29,000 b/d will be required to maintain stock levels at the 1972 ratio of 34.8 days of supply, making for total imports of 478,000 b/d.

As discussed in the previous section, these import requirements could well fall 150,000–200,000 b/d short of available foreign supplies. If the entire shortfall has to be borne by the independent segment, it could reduce their actual volume in 1975 by at least 10% below last year's. This would reduce their market share over the next 3 years from 30% to 23%.

Policy Recommendations

If a domestic gasoline shortage is to be minimized or averted, two courses of action are required: (1) short-term maximization of finished products imports and (2) the creation of incentives for domestic refinery expansion.

The two courses of action may seem contradictory on the face, since import liberalization may be considered a disincentive to domestic refinery construction. Nevertheless, unless *both* courses are adopted, the shortage over the next three years will either grow to the point where it could become unmanageable or we will become permanently dependent on foreign gasoline supplies for a large and growing share of our market which would be undesirable from the point of view of security—commercial as well as political—or balance of payments.

Specifically, the following actions would seem required in the present situation:

(1) For the next two years imports of all finished products should be allowed to come in freely and without source-of-origin restriction. During this period no new grass root refinery or major refinery expansion can be completed and available foreign supplies will not be sufficient to force a reduction in domestic refinery operations from present maximum levels, even if a decline occurs in foreign prices. Hence, unlimited imports during this period is not likely to have a negative effect on domestic refinery operations.

(2) In view of the lower yield of gasoline than middle distillates in most foreign refineries and the resulting relatively lesser availability of foreign gasoline supplies, a) U.S. refiners should be encouraged to maximize gasoline yields, perhaps by permitting an increase in gasoline prices (this would also have a minor dampening effect on demand); and b) imports of gasoline should be limited to qualified independent marketers of this product who should be given the right to exchange such imports in order to minimize inland freight costs.

(3) The construction of domestic refineries should be encouraged by means of a modest protective tariff on finished oil products. However, since it takes several years to build additional refinery capacity, the tariff should be postponed until there is evidence of sufficient new domestic refineries under construction or expansion, as defined in advance by the government. The reason why no protective tariff on finished products should be imposed at this time is

[4] Excludes an estimated 34,000 b/d of aviation gasoline production.

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that such action would further raise the price of imports and thus keep out some of the otherwise available foreign supplies, particularly in view of the existing domestic price restrictions on the oil products sold by the major integrated refiners.

(4) The domestic price of gasoline should be allowed to rise freely, in order to encourage the maximum importation of gasoline.

(5) A more reasonable and balanced environmental approach towards the construction of new refineries is required on the part of the public. If there had been no environmental opposition to the construction of new refineries on the East Coast, at least three new plants would currently be in operation, two of which would be located in New England. The output of these three plants would have been enough to avoid a gasoline shortage in the U.S. at least for the current year.

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