THE GASOLINE AND FUEL OIL SHORTAGE

HEARINGS

BEFORE THE

SUBCOMMITTEE ON CONSUMER ECONOMICS

OF THE

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THE GASOLINE AND FUEL OIL SHORTAGE

TUESDAY, MAY 1, 1973

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON CONSUMER ECONOMICS
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 1:40 p.m., in room S-407, the Capitol Building, Hon. Hubert H. Humphrey (chairman of the subcommittee) presiding.

Present: Senator Humphrey; and Representatives Reuss and Widnall.

Also present: Loughlin F. McHugh, senior economist; William A. Cox and Jerry J. Jasinowski, professional staff members; Michael J. Runde, administrative assistant; and Walter B. Laessig, minority counsel.

OPENING STATEMENT OF CHAIRMAN HUMPHREY

Chairman HUMPHREY. The meeting of the Subcommittee on Consumer Economics of the Joint Economic Committee will please come to order.

I have called these hearings because, speaking for myself, and I am sure for other Members of Congress, we are concerned about what is going on with gasoline; indeed, the entire problem of energy and what is termed the fuel crisis. Gas prices are already increasing sharply and, according to what we hear, they may go much higher, because contrary to what many people think, the majority of gas stations, even brand-name stations, are not under price controls. Only 23 major oil companies are covered by the mandatory controls, but 9 out of 10 filling stations are not actually owned by these companies. In some areas, you might have to burn a whole tank of gas to get to a price-controlled station.

I am equally concerned by the fact that thousands of small businessmen—namely, the independent terminal, tank truck, and gas station operators—are either being ruined or facing the possibility of it due to the action of several major oil companies to cut off their supplies of gasoline and their more than 100,000 employees are being rendered unemployed. Might I say to my colleagues that are here today, that I have just returned from the Easter recess period in my home State, as all of us have, and the local newspapers carried the story in Minnesota that over 100 gas stations have closed their doors in the last month with prospects of an additional 200 doing likewise. Six to seven major motor transport companies are facing curtailment of service due to inadequate supplies of fuel. I met with the Minnesota Motor Transport Association, and the members of that association expressed their concern, in fact, their deep concern, over the prospects of having an inadequate supply of diesel fuel and gasoline. So what we see is happening on a large scale.

Not only does this action by the major oil companies of cutting off gasoline supplies deprive many people of their livelihoods, but also certain parts of the country depend very heavily on the independent gasoline distribution network. I refer, for instance, to a company in Austin, Minn., known as the Champion Oil Co., that serves 184 farm outlets. This company has been there since the 1930's and receives its gas supply from a company in Texas known as the Champlin Co., which now has served notice that, as of July 1, there will be no gasoline, no fuel oil, no petroleum products.

The same situation prevails in many other parts of our State. Just yesterday I sent a letter to Sun Oil Co. as a result of a request from a constituent who faces the prospect of his station being closed. I have also had the opportunity to talk personally with one of the officers of the Sun Oil Co. about their DX stations which are found in the Midwest. So what I am saying is true in my part of the country. I understand it is also true in New England and parts of Florida and other places not close to major transport and industrial hubs. I should add, parenthetically, that Texaco, which is represented before us today by Mr. Card, its senior vice president, has not had regular, direct dealings with minor-brand independents for a number of years. Congressman Reuss may have something to say about that later.

I have received an interesting study done by the Petroleum Industry Research Foundation, Inc., of New York, which sheds a curious light on this situation. We will look at that report in today's hearings. It estimates the shortfall of gasoline supply east of the Rocky Mountains this summer at only 2 percent of demand, rising to about 5 percent in 1975. In other words, there is only 2 percent less than the demand. It indicates that such a shortage will draw down inventories to the level at which some bona fide shortages will appear. But this small shortfall does not seem to necessitate any broad-scale withdrawal of supplies from the independent distribution network. Meanwhile, far from contracting their own operations because of the shortage, the big companies are opening new stations of their own and competing to expand as fiercely as ever.

This is happening at a time when the profits of the major oil companies for the first quarter of 1973 are up by very large margins over a year ago. Of the companies that have reported, the figures are: Occidental Oil, up 70 percent; Sohio, up 48 percent; Exxon, up 43 percent; Amerada Hess, up 25 percent; Phillips, up 22 percent; Getty, 21 percent; Gulf, 19 percent; Texaco, 15 percent; and Continental, 12 percent.

I have introduced a joint resolution of Congress providing for an Emergency Fuel Allocation Board to be estabished in the Executive Offices to assure fair allocation of petroleum products to all parts of the country and to prevent anticompetitive practices in the industry. I hope it will not be necessary to keep such a board in operation beyond about 3 years, because the shortage is expected, according to some reports, to be relieved by 1976 through the construction of new U.S. refining capacity. However, I think this expectation may prove overly optimistic. There are reasons to believe that the pressure on the fuel supply will be with us for a longer period of time and may get worse before it gets better. Other legislation is also under consideration to deal with the allocation probem. I hope also that the Justice Department will expedite its own look into this situation and take appropriate legal action, if any is indicated under the antitrust laws. Also, I might add that the Federal Trade Commission could look into the situation, and I would hope that it would do so promptly.

Now, the other side of this supply problem is, of course, demand. The demand for gasoline—and we are concentrating today primarily on gasoline, not fuel oil and diesel oil—the demand for gasoline has increased more rapidly than expected this year because of a bumper crop of new automobiles with unbelievable large horsepower, which I doubt is necessary to move us across town, and somewhat reduce gas economy. Various avenues exist to improve gas mileage, but Detroit has not invested much in them, because it apparently has concluded in the past that such an investment would not pay for itself in more auto sales. We have been doing very well building more and more bigger and bigger cars with more and more horsepower, consuming more and more fuel, only to find ourselves with an environmental crisis, plus an energy crisis.

Gas mileage is no longer to be regarded as just a business decision of the auto companies. Today it is a public problem, and some Government action to encourage fuel economy may be needed if all else fails. Today we shall hear testimony on feasible means to improve gas economy and shall inquire into how to get those recommendations implemented.

Finally, let me note the important fact that the supply of gasoline is intertwined with the supplies of truck and tractor fuel, heating oil, and aviation and jet fuel, because all of these products come from the same barrel of crude. Partly because of the crash effort to refine gasoline last summer, we ran short of oil to heat our schools and factories in many parts of the country last winter, particularly in Minnesota, and our hopes for a good grain crop next fall are now riding on emergency measures to keep farmers and truckers supplied with diesel fuel. We were saved from a catastrophe in the Midwest—Wisconsin, Iowa, and Minnesota—and in other parts of the country, by the forces of nature and divine providence. We had one of the mildest winters in the past 25 years, and had it not been for the unusually warm weather, we would have had to close schools and factories, we would have had to shut down railroads, and we would have had to limit our use of electrical power. In fact, we were in an emergency situation declared by the Governor of our State in the first week of January.

Now, we cannot depend in the coming year upon the compassionate hand of the Lord, nor can we depend upon just good luck. We are faced with a major problem of short supplies of fuel oil in the winter and gasoline in winter and summer. As I say, we were saved from catastrophe by unusually moderate weather. The problem we face now is preparing adequately for the coming fall and winter.

The President's energy proposals failed to meet our need on three points. There are many constructive parts to his proposals, but three areas I think are inadequate. They fail to deal with the emergency situation we are facing, and they do not deal adequately with the question of fuel conservation. Finally, I do not believe that the President's proposals provide for adequate support for research to facilitate the use of presently available fuels and to develop new ones. I hope our hearings today and tomorrow will shed some light on how the shortage and its ill effects may be countered by Government, industry, and the public. At this time I wish to insert into the hearing record the study mentioned earlier by the Petroleum Industry Research Foundation. It provides a good background of facts and figures for the public and for students of this matter.

[The above referred to study follows:]

THE NEAR-TERM OUTLOOK FOR GASOLINE AND ITS IMPACT ON INDEPENDENT MARKETERS

(By the Petroleum Industry Research Foundation, Inc.)

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 other PAD III refineries account for 49% of total refining capacity in PAD I–IV and their gasoline output supplies 48% 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 I.—PAD I GASOLINE SUPPLIES

[Thousand barrels 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.

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 interdependency 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

	Gallons (thousands)	Percent
Branded gasoline:		
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 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

	Thousand barrels per day		Average annual increase (percent)
	1968	1972	
Motor gasoline demand	4,482	5,439	5
Refinery crude oil runs	8,770	9,845	3

In order to meet this divergent demand pattern between gasoline and the 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 should 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	+4	−104			
Million barrels	191	181.4	170.8	177.6	
Days supply (million barrels):[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.

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

[1] Distillates here includes kerosene.
[2] Includes aviation gasoline.

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.

TABLE 5.—PAD I-IV, 1973

[Thousand barrels per day]

	1973				
	1st quarter	2d quarter	3d quarter	4th quarter	Year
AVIATION GASOLINE					
Refinery runs (crude plus unfinished)	10,375	10,474	10,613	10,613	10,520
Aviation-gasoline 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 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 demand—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.

TABLE 6.—PAD I–IV: GASOLINE SUPPLY AND DEMAND, 1972–75

[In thousand barrels per day]

	1972	1973	1974 (A)	1974 (B)	1975 (A)	1975 (B)
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	(87.9)	(91.7)	(92.5)	(92.0)	(92.5)	(29.0)
Unfinished	102	110	110	110	110	110
Refinery input (excludes natural gas liquids)	9, 947	10, 520	10, 748	10, 690	10, 886	10, 690
Gasoline yields	46.9	47.0	48.0	48.0	48.0	48.0
Gasoline:						
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]	34.81	34.81	34.81	34.81	34.81	34.81

[1] End of period stocks divided by average demand for year. 1972 ratio of 34.81 days supply was held constant in 1973–75 period. See table below:

	Days supply
1965	40.3
1970	38.0
1971	38.2

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.[1]

[1] 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.

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 began 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 $24 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 a 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 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. Thus, a small but perceptible shortage is likely in that year. 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 account 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 buys 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:

Table 7.—Total Motor Gasoline Demand

(000 b/d)

I–IV

	1972	1975	Growth Rate
Independents	1,632	1,632	0.0%
Integrated Refiners	3,807	4,724	7.5%
	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[1] 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%.

[1] Excludes an estimated 34,000 b/d of aviation gasoline.

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 in 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 refining capacity the tariff should be postponed until there is evidence of sufficient new domestic refinery 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 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.

Chairman HUMPHREY. We shall now proceed with our first witness. I am going to ask our witnesses to confine their remarks if possible within the period of approximately 10 minutes.

The first witness is Mr. Card, vice president of Texaco, Inc.

Representative WIDNALL. Mr. Chairman, would you yield to me for a moment?

Chairman HUMPHREY. Of course, Congressman.

Representative WIDNALL. First of all, I would like to compliment you on your opening statement. I think you have clearly and succinctly put into the record the situation as we find it today. I would like to confirm from my own contacts, from my own experience, my own knowledge of the area that I happen to live in, the eastern part of the United States, that what you have stated is true. It is up to date. Some aspects of the situation are rather scandalous. I believe, as you have stated so well, that the big companies are using this as an opportunity to grind the smaller companies out of business. It seems just terrible to me that at the same time they are saying there is such a shortage,

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they are greedily looking for new business, new locations, developing further outlets that are completely controlled by the large companies.

I am very pleased that the subcommittee is going into this. I am sure that there is a lot of grist that can be brought to the mill and that we can be helpful in a situation that demands action soon.

Chairman HUMPHREY. Congressman Widnall, I want to thank you very much.

For the benefit of our audience, Congressman Widnall, of course, is from New Jersey. He is a senior member of the Joint Economic Committee.

Congressman Reuss is with us from Milwaukee, Wis.

Congressman, did you wish to say something?

Representative REUSS. Nothing other than joining with Bill Widnall in commending you for having these hearings. I think we should get right on with it.

Chairman HUMPHREY. Thank you, Congressman.

Mr. Card, we welcome you to the subcommittee and we thank you for your cooperation.

STATEMENT OF ANNON M. CARD, SENIOR VICE PRESIDENT, TEXACO, INC., ACCOMPANIED BY WILLIAM WEITZEL, COUNSEL; AND JAMES H. PIPKIN, EXECUTIVE VICE PRESIDENT

Mr. CARD. Mr. Chairman, members of the subcommittee, 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 25 years, primarily in marketing and planning assignments both in the United States and abroad.

I appreciate this opportunity to present to the Joint Economic Committee Texaco's views regarding the shortage of gasoline supply. I will describe the problem as we see it and tell you what Texaco believes can be done to help overcome this situation on both a short and long-term basis.

SUPPLY-DEMAND

There are many reasons for the shortage of gasoline supply in this country. Basically, it has been caused by leveling off and now declining U.S. crude oil production while demand is growing faster than the normal historical growth. In Texaco's view, restrictions on free market action, both in the past and present, constitute the primary reason for the shortages that exist today. These restraints are reflected in many ways and I shall review a few:

First, import policies in the past have made it difficult to import adequate supplies of crude oil and gasoline from abroad.

Second, taxing policies have taken away capital resources required to carry out the exploration program necessary to provide additional crude oil supplies.

Third, environmental laws and regulations—

a. Have delayed and discouraged construction of new refining capacity necessary to alleviate the present situation.

b. Have caused automobile manufacturers to require lowlead gasolines to help meet air quality standards; new cars get fewer miles per gallon, thus adding to gasoline demand.

c. Have limited the sulfur content of coal and residual fuels, which caused increased usage of distillate fuel oils and resulted in low gasoline inventory at the start of this gasoline season.

Finally, price control, which effectively prevents the recovery of higher costs, is another constraint to adequate gasoline supply.

DEVELOPING PROBLEMS

Texaco has taken every reasonable action to provide additional gasoline supplies. Texaco refineries are operating at available capacity for gasoline and have been doing so since early spring. Yet, it is expected that Texaco's supplies of this product in 1973 will be about the same as they were in 1972. Therefore, it may not be possible to supply all the gasoline that the customer may desire when he wants it.

We do not believe that the tight supply situation in the industry 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. It is anticipated, however, that such "run-outs" will be primarily local in character and of relatively short duration.

Texaco will endeavor to distribute its available supplies to our various customers on a basis as fair and equitable as possible, having 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 consumed in this country has been produced domestically. With today's supply-demand situation, there is a growing dependence on imports.

Gasoline supplies outside the United States are limited but to the extent they are available, the removal of import controls by the President last month will assist in supplying more gasoline if prices are adequate to encourage such importation. We are faced with the fact, however, that motor gasoline meeting specifications 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.

To attract such supplies, the industry must be permitted to recover the additional costs of imported products. In addition, whether on domestically produced or imported supplies, prices must be adequate to justify the many costly actions required to help alleviate the gasoline shortage and, under the present system of price control, gasoline prices are not adequate.

Relaxation of environmental standards relating to various fuels and specifications that reduce the production of gasoline would assist in overcoming the current shortage.

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.

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 such items as car pools, tuneup programs, reduced highway speed, staggered working hours and increased use of mass transit.

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, the development of new refining capacity in the United States must be achieved in order to provide for additional supplies.

Because of the inadequacies of the former oil import program, environmental restrictions, and difficulty in earning an adequate 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.

Price controls on petroleum products have done much to create the present shortage situation, and these controls should be removed. Prices must be established in a free market and at adequate levels for U.S. petroleum companies both to buy gasoline stocks in the highly competitive world market and to provide the incentive for building new refining capacity in the United States. Adequate prices are necessary to encourage additional supplies of crude oil and products, and generate sufficient capital resources.

The President's long-awaited message to Congress calling for a national energy policy was very welcome. However, this policy is not 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 Clean Air Act. It has been estimated that substantial quantities of gasoline used by new automobiles could be saved by very modest changes in the targets for air quality imposed by this act.

While the President's actions have recognized the need for additional refining capacity, we would hope the evolving national energy policy would 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 regulations. It is also evident that we need a method to coordinate the actions of Federal, State, and local authorities who are responsible for the various types of permits and licenses involved.

Texaco believes that fair and equitable distribution of available petroleum supplies can best be handled by the company owning such supplies without control or regulation by another party.

Restrictions on supplies being considered by various governmental authorities would reduce flexibility for the quick, decisive action needed to mitigate shortages and if supplies were reserved in any one area this could cause more widespread shortages elsewhere.

The Cost of Living Council's price limitations and procedures are definite deterrents to augmenting supplies of gasoline. If controls are continued, the prenotification procedure should be changed to retroactive notification.

In summary, there is widespread evidence that a gasoline supply shortage exists in this country. 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 congressional action on the principal points in the President's energy message.

It is very difficult at this time to determine the precise shortfall of gasoline supply in the balance of this year. Some have estimated that the supply will be 5 percent short of demand. Putting it another way, the 1973 supply may be about the same as the 1972 gasoline supply. The extent and duration of the shortage will depend directly upon the increase in demand and the actions that are taken to correct those factors that have caused the shortage.

It is quite clear that a shortage of energy exists in the United States today. At best, the situation will remain acute because of the long 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.

Gentlemen, this concludes my statement.

Chairman HUMPHREY. Would you like to identify your associates, Mr. Card?

Mr. CARD. I would be happy to. On my right is Mr. Jim Pipkin, our executive vice president here in Washington. On my left is Mr. Bill Weitzel, counsel in our legal department.

Chairman HUMPHREY. Very good.

I want to thank you for coming to us today. You have responded to our request and it is appreciated. You have offered some very constructive suggestions. Just a point about allocation of supplies. There seems to be some little difference between your figures and the figures of the Petroleum Research Foundation study on the shortfall. You estimate about 5 percent this year or 1973. I think they estimated 2 percent and 5 percent by 1975. The exact figure is perhaps not of major consequence, even though that shortfall does have an impact.

Let me ask you this. Does Texaco supply independent dealers?

Mr. CARD. Are you talking about what we call branded or private-brand dealers?

Chairman HUMPHREY. Both. I know you have some independent operators that have the Texaco brand, Fire Chief insignia, right? Those are independent dealers under your franchise, right? Is that the way it operates?

Mr. CARD. Texaco branded dealers, yes, sir.

Chairman HUMPHREY. Do you have other independent dealers that you supply from Texaco Co. gasoline supplies?

Mr. CARD. It is not and has not been the Texaco Co.'s policy over the years to supply gasoline for resale under private brand. We have followed that policy with one exception, which amounts to a very, very small amount related to the total. This one exception is a customer of long standing.

Chairman HUMPHREY. In the allocation of your available supplies from your refineries, do you have an allocation system that will take care of your independent outlets as well as company-owned outlets?

Mr. CARD. Yes, sir. As I mentioned, we have about the same supply—we expect to have about the same supply of gasoline in 1973 as we had in 1972. The amount of gasoline to the various customers of Texaco that we have will be offered to them on the basis of this supply which we expect to be about the same as they got in 1972.

Chairman HUMPHREY. Have you served notification on any of your independent outlets carrying Texaco name brand that their supplies will be terminated, let us say, July 1 or January or December 31, or any date in the foreseeable—in the near future?

Mr. CARD. Let me explain this. We are talking about different types of customers—well, wholesalers, retailers, and so forth, under the Texaco brand name.

Chairman HUMPHREY. Yes.

Mr. CARD. We must realize that, all through any year, there are terminations of sales agreements that many times originate on the part of the customer. So there are terminations and cancellations for various reasons. They cancel the company or vice versa. There are terminations that take place. But insofar as any termination because of fuel supply, this has not been done. We are, of course, following the normal program that we had historically, had changes of account, so to speak.

Chairman HUMPHREY. Yes.

Mr. CARD. But we do expect to offer these people the same amount of gasoline that they got in 1972.

Chairman HUMPHREY. Are you pulling out of any section of the country?

Mr. CARD. No, sir.

Chairman HUMPHREY. For example, such as Gulf is pulling out of our State, and Sun Oil?

Mr. CARD. No, sir, we are not doing that. As you know, we operate throughout the 50 States, and we have no plans for any mass withdrawal from any section of the country.

Chairman HUMPHREY. Would you think a program of voluntary allocation of gasoline supply among the majors, in which there was some Government coordination, would be feasible?

Let me explain. There are two ways of getting that allocation. One is under authority of rule and regulation in which the Government would simply see that the allocations were made under force of law. The other would be where you could establish a board that would work with the private majors, with the major companies, and bring about, hopefully through voluntary means, a more equitable allocation of supplies to all parts of the country. Do you think this would work?

Mr. CARD. Well, Mr. Chairman, I have given an awful lot of thought to what you describe and to other plans, and I have had extensive experience in marketing in this country and outside. I can assure you that the matter of distribtuion is extremely complex. The systems that we are following, we feel, are the best way to handle distribution of available supplies. The necessity for flexibility, for quick action, is extremely important, because in this vast network of supply and distribution in this country, it is necessary to make hourly decisions, literally hourly decisions, on how you would supply. As of this very moment, somewhere in the United States, we perhaps, as well as others, have major distribution points, terminals, that are out of some product at this very moment. Now, the flexibility that we have under our system permits us to crosshaul, to draw on other points, perhaps from a different section of the country and from a distant point, to bridge this emergency gap in order to supply the customers in that area so that they will not run out.

Chairman HUMPHREY. Yes.

Mr. CARD. So the mechanism is vast; it is complex. It requires immediate decisions and actions utilizing all transportation means, if possible, to handle these situations. Therefore, I say and have said in my statement that, in my judgment, a company itself can best determine how to distribute its available supplies, and I am of the firm opinion that this is the system that works best in our own case.

Chairman HUMPHREY. Well, how do we assure people in inland America, for example of adequate supplies? We in our part of the country are on the trickle end of the pipeline, you see, from east coast, west coast, or gulf. Our Canadian friends want to have some restrictions on the amount of oil, crude oil, that they are willing to export or that they are willing to send down into the States. They are concerned about their own resources. But we have small independent refineries in our area that aren't getting crude oil. Also, how are we going to be assured of the supply not only of gasoline, which we are concerned about primarily here, but also of necessary fuel oil? It gets cold in my part of the country in the winter.

I was with an industry at Winsted, Minn., just 1 week ago today, and the manager of that industry, which employs 600 people, told me he had been within 1½ days of being out of all heating oil last winter. They already had closed off the natural gas and there was no more propane available. He was down to 1½ days of fuel oil when the cold spell that had gripped us in December broke and they were able, through emergency measures taken by the Governor and the Civil Defense Agency of our State, in cooperation with the oil industry, to bring in fuel oil by truck from Calgary, in Alberta, down through Saskatchewan into Minnesota, to relieve a critical fuel oil situation. And last year turned into a very mild winter. Now, how are we going to get enough gasoline or fuel oil in the coming winter even if we have temperatures that are 10 degrees above what we ordinarily have? Have you been around our part of the country in winter?

Mr. CARD. Yes, indeed.

Chairman HUMPHREY. You know it can be darned cold there in the winter.

Mr. CARD. Let me say this, sir. I am relating this first to gasoline, but other products, too.

Chairman HUMPHREY. Let me get it straight technologically. When you produce more gasoline, you produce less fuel oil, is that the case?

Mr. Card. A percentage, yes. When you run a refinery to maximum capacity on one product, it does limit what you make with the rest of it.

Chairman Humphrey. So you are producing more gasoline in the summer generally and less of the fuel oil?

Mr. Card. Yes, sir; this is true.

Chairman Humphrey. Then you try to tail it off, I mean trim it off, the other way in the fall and the winter?

Mr. Card. Yes, sir. There is a point at which you would change to maximum running of fuel oil, for example, in the heating season, and gasoline in the summer season, in the peak driving period.

Chairman Humphrey. Address yourself, then, to my problem.

Mr. Card. Yes, sir.

With regard to the system which I mentioned, fair and equitable distribution of your available supplies, now, this is the underlying basis which we follow. We keep in mind that there is a certain amount available, and we operate throughout the country, and we endeavor to distribute this to the customers in Minnesota on the same basis as we distribute on the gulf coast or in New England or any other part of the country, on the basis of what Texaco sold to its customers in the prior year. This, we think, is the fair way to do it.

Chairman Humphrey. I agree that that is the fair way to do it.

Mr. Card. All right. Now, the problem is in getting more supply, and the items which I have enumerated here for the short-term solution, we think, are a way to have perhaps some additional supply and, at the same time, to curtail this faster-than-normal growth rate in demand. This, we think, would be the logical approach to it.

Chairman Humphrey. You mentioned, for example, taking off all price controls, even though, as I indicated in my earlier statement, price controls do not apply all the way across the industry. In fact, insofar as the retail pricing is concerned, many of the gas stations, or most of them, do not have a mandatory price control on them. You said that we ought to take off those controls; is that correct?

Mr. Card. Yes, sir, I said that we had to have the opportunity to have adequate prices in order to encourage greater supplies of gasoline.

Chairman Humphrey. Now, let us assume that we took off the controls this year. How long does it take to build a refinery?

Mr. Card. Well, I am not relating it, really, to building a refinery, although that is a part of it. Now, the leadtime on building a refinery today really depends on how long it takes to get the permits and the impact statement.

Chairman Humphrey. Let us assume you get a permit, I thought your suggestions on permits made lots of sense—I mean the necessity of breaking through that legal network or jungle of restrictions and license problems on location. Let us assume that you have a permit now. A site permit.

Mr. Card. If you have the permit on location, it takes about 3 years.

Chairman Humphrey. About 3 years before a refinery could be completed?

Mr. Card. Yes, sir. This depends on things going pretty well.

Chairman Humphrey. Now, is there a shortage of capital for construction of refineries?

Mr. CARD. The capital available for the petroleum industry, as you know, much of it is acquired from outside, from borrowing, and it is not coming from internally generated funds. Studies have shown that about 75 percent is generated internally, and perhaps less now, and the balance of it has to be provided from the financial institutions available over the world. So this is true, and this is a very important factor in obtaining the capital resources for all of the different activities that go on in the petroleum industry. You mentioned the earnings figures. I would like to point out, sir, that you are looking at figures on percentage increases over a low base in 1972. And this really is not a proper gage of the well-being of the petroleum industry.

Also, consider the assets. What is the return on assets? I have not analyzed them yet, but I daresay if we look at the assets and the return on these assets, you will find a far different picture from what might appear on the surface from these increases.

Chairman HUMPHREY. You get a 7½-percent investment tax credit when you build a refinery, do you not?

Mr. CARD. The investment tax credit on refineries—I would have to look at that to make sure it applies.

Chairman HUMPHREY. That is the law, is it not? Seven and a half or eight percent invesetment tax credit. Seven and a half percent.

Mr. CARD. I would have to look at it to make sure it applies.

Chairman HUMPHREY. Well, it applies. Also, you get fast writeoff amortization, rapid amortization?

Mr. CARD. The problem is not specifically related to building refineries, if we are permitted to build, to get the permits, and if we have a source of crude oil to run them with, an assured source of crude oil. And mind you, the former import control program did not assure you of adequate supplies of crude oil. We are not really making a point here of the capital requirements. That is a very important point, mind you, and you have to have the prices adequate to justify these investments. But today, as I have said in my statement, we need to have a way to get the permits. Instead of spending 1½ years to file an impact statement and then not knowing whether you are going to get the permit, we need a way to get them quickly. Some companies have announced plans already to build refineries, and we are studying our situation. But today, we still have to go through this long-drawn-out procedure to get the permit.

The other important thing that I related to price controls had to do with the importation of gasoline. I would just like to make this point about the importation of gasoline today in the United States. First of all, there is not a great amount available because of the fact that overseas refineries are built to run a small percentage of gasoline. In Europe, in fact, gasoline is less than 20 percent.

The next factor is the limitation on the fuel specifications for American-made cars. And a third factor is that today, in Rotterdam, the price of gasoline is considerably higher than can be recovered on the U.S. east coast; in fact, it is somewhere between 5 and 10 cents a gallon higher there than can be recovered under price controls on the east coast of the United States.

Chairman HUMPHREY. The price of gasoline, as I recall—that is, the price from the refinery to the wholesaler and to the retail outlet, exclusive of the taxes which have been levied at State, local, and Federal level—that price has been rather steady, has it not, over the years, rather stable?

Mr. CARD. Mr. Chairman, it has fluctuated. It has fluctuated quite a bit over the years. But there is one point that I must emphasize.

Gasoline, as well as other petroleum products in this country, has been at bargain rates, and the American people simply must become accustomed to the fact that this cheap energy is gone and it is not going to return. This is the thing that I am insisting that the citizens in his country must be brought to recognize. Because any way you look at it, the era of these bargain rates on energy, particularly petroleum energy, is gone.

Chairman HUMPHREY. Well, you are not trying to tell me that during this period that we got such a good deal on petroleum, the gas companies and the petroleum companies were losing money, are you? It seems to me that they have had about as large an accumulation of wealth and profits as any of the corporate structures that we have.

Mr. CARD. But the thing I am talking about, though, is the fact that the availability, the abundant supply that we have had in the past, has made low-cost energy possible. But today, the abundant supply is gone and the cost factors in making supplies available to meet the demand in this country, these cost factors are what is driving prices up.

Chairman HUMPHREY. Are you referring, in other words, to the cost increases of imported crude?

Mr. CARD. Cost increases in crude oil and cost increases in refinery construction, cost increases in salaries and wages—every factor that affects the economy inflationwise affects the cost of a gallon of gasoline.

Chairman HUMPHREY. Congressman Reuss.

Representative REUSS. Thank you, Mr. Chairman.

Welcome, Mr. Card.

Mr. Card, in your testimony, you pointed out that there would be a gasoline shortage in the summer, and you state: "Texaco will endeavor to distribute its available supplies to our various customers on a basis as fair and equitable as possible."

Well, this weekend, I was talking to a fellow named Pete Rasmussen, who runs the Texaco station in the town of Marton, Waukesha County, Wis., at the junction of Highway 74 and Highway 83, who told me that the day before, he had received notice from his Texaco distributor in Germantown—that is Washington County, Wis.—that he was being cut back to his 1972 level. But his 1972 level was a bankruptcy level for him, because he was sick that summer and could not pump any gas, so that he used almost none during the three heaviest selling months of the year. In the interest of fairness and equitability, what can you do for Pete?

Mr. CARD. All right, sir. I will be glad to talk to him.

Chairman HUMPHREY. By the way, I should interrupt to say this is the kind of information we Senators and Congressmen get when we are home. None of this general stuff, you know.

Mr. CARD. We get some of that, too.

I will be glad to comment on this. First of all, Texaco has a considerable number of branded Texaco distributors.

Representative REUSS. He was not your own outlet. He was an independent branded distributor.

Mr. CARD. Texaco supplies this branded distributor. Our working arrangement is with that distributor, who has been told that his supply will be equal to his 1972 supply.

Representative REUSS. But, surely, you could exercise some leverage on him to see that he tempers justice with mercy.

Mr. CARD. No, sir, we cannot. We would not undertake to. This is his business. We have a sales arrangement with him and we have told him what his supply would be—I am not speaking of that particular distributor. Our policy with regard to distributor supplies, and this has gone out, is to supply them the same quantity that they received last year.

Now, we expect to do the same thing, though, with directly supplied Texaco retailers. So I know what you are talking about, and there are some situations that will require looking at the overall supply and how it can be equitably handled. There could be cases where distributors will wish to look at that, just as everyone will have to look at any peculiar or particular situation.

Representative REUSS. Well, do I understand that with your own Texaco dealers—that is to say, not independent dealers, but your own——

Mr. CARD. Yes, sir.

Representative REUSS. That in a case like this, you would put him out of business, you would not take account of the fact that he had been sick all the summer of 1972?

Mr. CARD. Well, you speak of independent dealers. All of our retailers are independent service station operators, branded—you are speaking of the branded ones?

Representative REUSS. Yes.

Mr. CARD. They are expecting to get, and our program will call for them to have the amount in 1973 that they had in 1972. Now, month by month——

Representative REUSS. Are you going to apply that so as to put out of business someone whose only sin was that he happened to be sick in the summer of 1972?

Mr. CARD. It will not put him out of business.

Representative REUSS. If he does not get any gasoline, it sure will put him out of business.

Mr. CARD. As I have said, we will distribute on a fair and equitable basis in these particular individual circumstances, just the same as a sensitive account—for example, a fire department, an ambulance service or any customer of this kind—we are very sensitive to supplying those. This is in fair and due consideration of the public welfare. Certainly, our policy calls for supplying those and we certainly intend to. And we will look at every individual hardship case as we have done in the past heating season, and we have gone through this——

Representative REUSS. But in a case such as I have put, where a man, due to his illness last summer, was unable to operate his business as normal, and hence in 1972 had a very low base-period sales level, do you consider it fair and equitable to bankrupt him by not delivering the gasoline which his normal pattern would have required?

Mr. CARD. Well, let me explain. Our policy is to handle this on a fair and equitable basis.

Representative REUSS. I am trying to define what that means.

Mr. CARD. When we have those kinds of cases, we will certainly be glad to consider the individual circumstances and then determine what the extent of the emergency is and then come up with a system that will treat our retailers fair and equitably.

Now, what the distributor does, it will be his judgment of what is fair and equitable in his case. We cannot tell him what is fair and equitable in his case.

Representative REUSS. So what you are saying is that while your own retail distributors will be treated fairly and equitably, those who receive their Texaco supplies through an independent wholesale distributor will have no such guarantee from Texaco to fairness and equitability of distribution?

Mr. CARD. We will distribute to that distributor——

Representative REUSS. I wish you would just give me a straight answer to that.

Mr. CARD. We cannot guarantee what will be the situation with regard to that retailer served by that distributor, because that relationship, sir, is between that retailer and that distributor. Their contractual relationship is between them, not with the retailer to Texaco.

Representative REUSS. Leaving aside the witty diversities of the law of contract, can you not tell your distributor that, if he fails consistently to behave in a manner that is fair and equitable, you will get yourself a different distributor who will?

Mr. CARD. Sir; this is a matter that we have looked at very carefully, and our relations with our distributors are very clear cut. We handle them in line with a contractual arrangement, and we do not violate what is permitted. We realize that these are businessmen who make their own determinations, and it must be that way.

Representative REUSS. Your answer, in short, is no?

Mr. CARD. No, sir, we cannot dictate to that distributor how he will carry on his business with his retailer.

Representative REUSS. Turning briefly to another subject, you list the various reason in your statement for the current shortage of gasoline.

Mr. CARD. Yes, sir.

Representative REUSS. You say, second, taxing policies have taken away capital resources required to carry out the exploration programs necessary to provide additional crude oil supplies.

Now, is it not a fact, as the Internal Revenue Service informs me, that Texaco, in the last year for which we have figures, 1971, paid into the Treasury only 2.3 percent of its before-tax profits in U.S. income taxes, whereas the average corporation paid some 40 percent, about 20 times as much?

Mr. CARD. Well——

Representative REUSS. Just let us get the facts straight, first. Is that not a correct statement on my part?

Mr. CARD. This is a complex and broad field.

Representative REUSS. Perhaps counsel can refresh your recollection.

Mr. CARD. Let me give you the complete picture.

Representative REUSS. Just give me the 1971 figures. What were your profits before taxes, and what percentage did you pay to the Federal Government in income taxes?

Mr. CARD. These are—you have to look at the total picture. The tax burden of Texaco accounts for the bulk of its net income before taxes; and the direct taxes on operation, excluding income taxes, in 1971 amounted to $1.187 million. And income taxes, $938 million. In 1971, the net income after taxes was $904 million, and the income taxes were $938 million. This is the tax burden of Texaco.

The direct taxes and income taxes amounted to 70.2 percent, and the net income was $904 million in 1971.

Representative REUSS. You keep bringing in direct taxes.

Mr. CARD. You have to look at the whole picture, sir.

Representative REUSS. I am all for looking at the whole picture, but my question had to do with your Federal income tax.

Let us let it go this way: If you find that my assertion, which derives from the Internal Revenue Service figures, that in 1971, Texaco paid only 2.3 percent of its before-tax profits in U.S. income taxes, if you find that this is incorrect, please set forth wherein it is incorrect when you correct your testimony?

Mr. CARD. Sir, we have the whole picture, and I have a booklet prepared on this that is very enlightening. I would be glad to leave a copy for you or for the record.

Representative REUSS. I appreciate that and also, as I say, when you corrct your testimony, if you find that you paid more than 2.3 percent of your before-tax profits in income taxes, indicate how you did that.

[The above referred to information follows:]

Energy and the Need for Tax Incentives

Energy is taken for granted until it begins to run short

Today available energy resources are running short of foreseeable demand in the United States. This shortage is expected to worsen. Yet with singular untimeliness many persons in and out of government are urging the removal or reduction of tax incentives that are vital to supplying energy demand.

Proposed changes in the tax laws would handicap the petroleum industry in its efforts to check the decline in available oil and gas reserves and to reverse the trend. These proposals would eliminate or materially reduce tax incentives that are vitally important —not only to the oil industry but equally to the sustained economic growth and national security of the United States.

The purpose of this booklet is to explain the key tax incentives and to review the role they have played —and hopefully will continue to play—in the discovery and development of petroleum supplies and, indeed, in our nation's well-being.

An overview

For over half a century our tax laws have provided special incentives to encourage the discovery and development of oil and gas reserves. The percentage depletion deduction is designed to permit the discoverer of an oil or gas deposit to recover, tax-free, an amount representing the capital value of each barrel of oil or cubic foot of gas taken out of the ground, since his irreplaceable oil or gas reserves are being depleted. It applies only to producing operations.

In addition, the oilman is permitted to write off most of the expenses incurred in drilling an oil or gas well through the current expensing of intangible drilling and development costs.

Both of these provisions have facilitated the internal generation of the bulk of the vast amounts of money needed to finance the continued exploration for and the development of new oil and gas reserves.

Moreover, our tax laws have long contained provisions designed to preclude the double taxation—at home and abroad—of income earned abroad by United States citizens or enterprises. These provisions apply to all taxpayers, not only to the oil industry. Without such provisions, it would not be possible for U.S. oil companies to compete abroad with foreign-controlled businesses in finding and developing petroleum reserves.

More recently, U.S. tax laws have provided for accelerated depreciation of new plant and equipment and for an investment tax credit as to certain of these facilities. These provisions encourage the modernization and expansion of our domestic industrial plant. They also make capital cost recovery allowances in the United States more competitive with those of other nations.

All of these incentives have helped the petroleum industry provide our country with more than three fourths of its total energy requirements.

Present tax incentives

Percentage depletion is an income tax deduction explicitly provided for in the law. It recognizes that an oilman's barrel of oil is his capital and merchandise rolled into one. When he sells it, he sells away part of his capital. His ordinary income is taxable like anyone's. But if his capital also were taxed, he would soon be out of business. Percentage depletion prevents his capital from being taxed.

It is important to remember that percentage depletion does not apply to all of an oilman's income—only to income from production. Income from refining or product sales is not affected.

Percentage depletion permits an oilman, in the calculation of his income tax, to deduct 22 percent of the gross income from each producing property, but not in excess of 50 percent of the net income from the property. Similar deductions of 22 percent are allowed for the production of sulphur, uranium, and 39 other specified minerals, while still other minerals with lower exploration and development costs have rates of 15, 14, 10, 7.5, and 5 percent. Congress, in enacting these provisions, recognized that the barrel of oil or other mineral in the ground represents the producer's capital and that, when he sells it, he is selling a part of his capital.

In 1969, Congress reduced the depletion rate for oil and gas from 27.5 percent to 22 percent. It also added a 10-percent "minimum tax" on so-called tax preference items that include the percentage depletion deduction. This minimum tax provision further reduces the effective oil depletion rate to approximately 18 percent and is a *dis*incentive to investment in the petroleum industry.

Intangible drilling and development costs are expenses incurred in drilling oil and gas wells and can be deducted currently by the oilman for tax purposes. They represent primarily wages and, in addition, fuel, repairs, supplies, and hauling necessary in the drilling of a well, none of which has any salvage value. These expenses constitute approximately 75 percent of the cost of a well. The remaining 25 percent, representing tangible costs, are treated as capital investments and are recovered through annual depreciation charges for tax purposes.

The foreign tax credit provisions were adopted more than half a century ago and apply not only to the petroleum industry but to all taxpayers with foreign income. These provisions permit U.S. taxpayers to reduce their U.S. income taxes otherwise payable on income earned abroad by the amount of foreign taxes paid to the host governments on the same income. Since the U.S. government taxes the worldwide income of its citizens, the purpose of Congress in enacting the foreign tax credit provisions was to avoid subjecting the same income to double taxation —first in the foreign country where the income was earned and again in the U.S.

Capital cost recovery allowances, usually called depreciation, were recently liberalized and now provide important tax incentives not just for the petroleum industry but for *all* industry. Under these provisions, taxpayers may recover an asset's cost over a shorter economic life, thus permitting faster internal generation of cash for replacement of assets.

The investment tax credit allows taxpayers up to 7 percent of the cost of machinery and equipment as a credit against U.S. income tax liability. This provision generates cash flow and encourages businesses to modernize and expand plant and equipment.

How these incentives have worked in practice

For some 50 years percentage depletion and the intangible drilling deduction have acted as incentives in encouraging the exploration for and development of our oil and gas reserves.

At present, more than 75 percent of our nation's energy comes from oil and natural gas. It is no coincidence that our personal mobility and our industrial strength are unmatched anywhere. All this has been achieved largely because of the success that oilmen have had in their search for petroleum reserves. It has been a search full of risk, and one of the important aspects of our tax policy is the encouragement it gives oilmen to keep up their search despite the risks.

Oil is a business and every oilman hopes to make a reasonable profit. But it is a high-risk business involving huge investments. No one has yet found a way to make looking for oil anything like a sure thing. When a wildcatter drills a well hoping to discover a new field, his chance of finding *any* oil or gas at all is only one in ten. His chance of finding a new field large enough to be considered a commercial success is about one in 60.

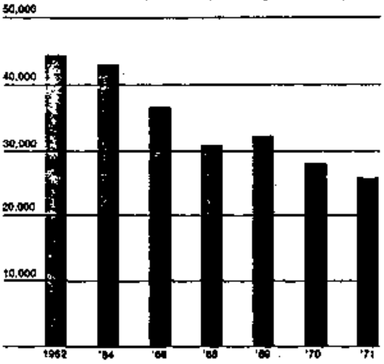
Those wildcatters who have made fortunes in oil—just as individuals have made fortunes in other industries—did not become wealthy because of percentage depletion and the intangible drilling deduction. They did so because, risking their own capital and facing great odds, they discovered valuable oil resources.

About 18,000 fewer wells were drilled in the United States in 1971 than in 1962, a drop of more than 40 percent (see Chart 1 on following page). One of the major factors that influenced this decline was the growing cost of exploration and development—a

Chart 1

Total Wells Drilled in U.S. Are Declining

(Wildcat and development wells, excluding service wells)



Source: American Petroleum Institute

cost that now runs at about $5 billion annually. Furthermore, the 1969 Tax Reform Act contributed to this decline by adding more than $600 million to the oil industry's 1970 tax bill.

Proved oil reserves in the United States, which amounted in 1962 to 12.8 times annual production, had declined by 1971 to only 8.9 times annual production, excluding reserves on the North Slope of Alaska that are not yet accessible (see Chart 2). Even if these reserves on the North Slope were included, the ratio would have been only 11.3 in 1971.

Besides encouraging the exploration for and development of new reserves, our present domestic tax policy plays an important role in developing presently known reserves because of the incentive it provides for the use of secondary recovery techniques to recover more oil from existing wells. These methods — such as injecting gas, water, or solvent into producing reservoirs — are of tremendous importance in obtaining maximum recovery of known reserves.

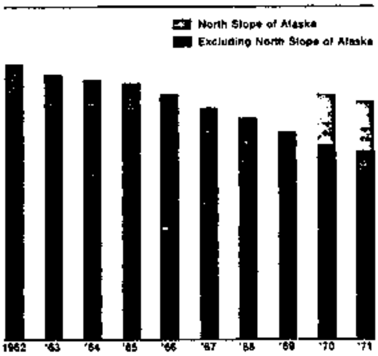
American-owned oil companies also have substantial investments in oil operations in other countries, which are becoming increasingly important because of our impending energy shortage. Today, American-owned companies produce approximately 17 million barrels a day of petroleum liquids abroad, compared with total U.S. production of 11.3 million barrels a day. At present this production abroad is mainly transported to other countries, where it is refined and marketed in U.S.-owned refineries and distribution facilities. Some of this production abroad is also imported into the U.S. to make up the shortages in our domestic production. Currently crude oil and product imports amount to about 4.6 million barrels a day, or 29 percent of the total U.S. demand of 16 million barrels a day.

U.S. tax policies so far have enabled the privately owned American petroleum companies to develop foreign oil reserves and to compete in world markets with foreign-owned companies — some of which are controlled, wholly or partially, by foreign govern-

Chart 2

Ratio of U.S. Reserves to Production Is Declining

(Crude oil and natural gas liquids)

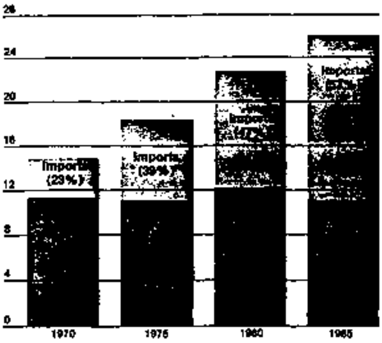


Source: American Petroleum Institute and American Gas Association

Chart 3

Domestic Sources Are Expected To Supply a Smaller Percentage of U.S. Petroleum Demand

(Million barrels per day)



Source: National Petroleum Council—U.S. Energy Outlook, Nov. 1971

ments. The investment abroad by American petroleum companies is a major contributor to the U.S. balance of payments. In 1970, the inflow from overseas petroleum investments exceeded direct investment outflow by $1.3 billion.

The increased use of energy in this country has been the hallmark of our rising standard of living. The automobiles we drive, the trucks and buses necessary for our daily life, and indeed all forms of transportation developed since the horse-and-buggy days are dependent on energy resources. One of the largest uses of energy is in generating electricity to provide light, heat, and power for our homes, offices, and factories. An abundant supply of energy, particularly petroleum, has proved essential to our national security.

But soaring demand is outstripping our domestic energy resources. The per-capita use of energy has increased almost 50 percent in the past 15 years. The best estimates are that it will increase at an even more rapid rate in the next 15 years.

By 1985, U.S. petroleum demand is expected to reach 26 million barrels per day, a sharp increase of 62 percent over the 1972 level. Assuming no change in present tax and energy policies, oil imports are expected to supply over half the projected U.S. demand in 1985 (see Chart 3).

American dependence on imports of oil from abroad for such a large proportion of our vital petroleum demand raises serious questions concerning our economic strength and indeed our national security. The United States must not become unduly dependent on foreign oil.

Providing our future energy requirements will necessitate enormous amounts of capital. The Chase Manhattan Bank estimates that, just to maintain the present ratio of domestic production to domestic demand, it would be necessary during the period 1970-1985 to spend $140 billion in the search for and development of oil and gas supplies within the United States. This projected expenditure is twice the amount that was spent in the previous 15 years. It does not take into account any inflation.

For the U.S. oil industry to meet the great challenge of maintaining adequate supplies of domestic petroleum, our Government must adopt a sound energy policy. This policy should include tax provisions that will provide continuing incentives for the development of our natural resources.

Some misconceptions

The true situation regarding the necessity for tax incentives in the oil industry is sometimes clouded by inaccurate or misleading statements as to the amount of taxes paid by the oil industry and as to the amount of profits earned by the industry.

The Oil Industry's Tax Burden: With the tax incentives and capital cost recovery allowances provided under the Federal tax laws, does the domestic petroleum industry bear its fair share of our nation's tax burdens?

The answer is an unqualified yes. The petroleum industry paid about $3.5 billion in Federal, state, and

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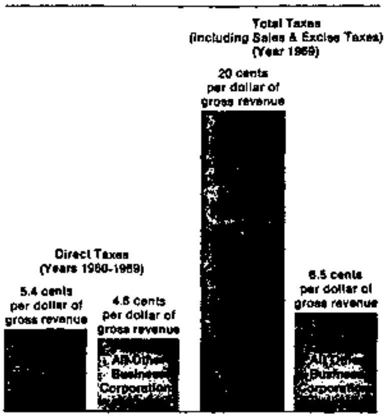
Chart 4

The Petroleum Industry Bears a Fair Tax Burden



Source: Petroleum Industry Research Foundation, Inc.

local taxes in 1970 (the most recent year for which complete data are available). These direct payments do not include sales or excise taxes on petroleum products. According to the Petroleum Industry Research Foundation, Inc., the oil industry pays in taxes, *excluding sales and excise taxes*, a higher percentage of its gross revenue than the average for all other U.S. business corporations (see Chart 4). This statement is true for the average of the most recent ten years (1960-1969) for which comparable data are available, with the petroleum industry paying 5.4 cents per dollar of gross revenue compared with 4.6 cents per dollar for all other business corporations. This statement is equally true for every year during this ten-year period.

If excise and sales taxes were included in the petroleum industry's tax bill, the total taxes paid to domestic governments would be 20 cents per dollar of gross revenue, or over three times more than the total tax burden of U.S. corporate businesses as a whole.

A financial analysis by The Chase Manhattan Bank of 30 oil companies, constituting the major proportion of the petroleum industry in the free world, shows that the industry's worldwide taxes are rising much faster than its net income. In the past three years, annual taxes of these 30 companies increased by $5.6 billion, or 76 percent. In the same period profits rose by little more than $500 million, or only 9 percent.

It must be remembered that oil company operations are not limited to the U.S. Most of the American companies are international in scope and they pay taxes wherever they operate. Misleading data inserted into the *Congressional Record* on October 27, 1971, indicated that 19 large oil companies paid only 8.7 percent of their net income in Federal income taxes in 1970. Similar statements have been made at other times in various publications.

Such statements are grossly misleading, since they relate U.S. income taxes to worldwide income without regard to the foreign income taxes paid on foreign income. When properly related, the 1970 tax data of 18 major oil companies (including 17 of the 19 cited in this statement), as compiled by Price, Waterhouse & Co., show that U.S. and foreign income taxes for the year in question together amounted to 46 percent of worldwide net income before such taxes. The U.S. income tax alone, as a percentage of U.S. net income, amounted to 21.8 percent, or two and a half times the indicated 8.7 percent rate.

Texaco's Tax Burden: Texaco's tax burden follows the same essential pattern as the industry's. Either directly or through subsidiaries and affiliates, Texaco conducts operations in every state of the United States and in virtually every country in the free world. It pays taxes in all of these jurisdictions. Direct taxes — all taxes charged against worldwide gross income in arriving at net profit — paid by Texaco and its subsidiaries, including its equity share of taxes paid by affiliates, during the past two years are shown on Chart 5.

As indicated in the chart, Texaco's net income after taxes was $822 million in 1970 and $904 million in 1971. These figures amounted to 33.4 percent and 29.8 percent, respectively, of net income before taxes.

In other words, all direct taxes amounted to 66.6 percent in 1970 and a staggering 70.2 percent in 1971 of worldwide net income before such taxes. These taxes, which include Texaco's equity in affiliates, included $82 million in Federal income taxes in 1970 and $38 million in 1971, but such Federal income taxes constituted just one part of the total tax burden on the Company.

These direct taxes were exclusive of products taxes collected from consumers and paid to governments. Such products taxes amounted to $1.4 billion in 1970 and $1.7 billion in 1971.

If both direct and products taxes are combined, Texaco's worldwide operations, including its subsidiaries and its equity in affiliates, generated total revenues of $3.1 billion and $3.8 billion in 1970 and 1971, respectively, for all governments.

In 1971 alone, the huge tax burden of $3.8 billion was four times Texaco's net income for the same year; or more than four times the amount of wages and benefits paid to employes; or nearly nine times

Chart 5

Texaco's Tax Burden Accounts for the Bulk of Its Net Income Before Taxes

(Millions of dollars)

the total dividends paid to Texaco stockholders. Moreover, this amount does not include the income taxes paid by Texaco's stockholders on dividends of $436 million distributed during that year.

It is obvious that Texaco as a leading worldwide producer, refiner, and marketer of petroleum and its products bears a heavy tax burden—more than 70 percent of net income before direct taxes in 1971.

Contrary to the common misconception that oil industry taxes paid to certain foreign governments are merely royalties, there is a clear-cut distinction between royalties and taxes. Royalties are normally paid by petroleum producers in this country to the landowner, whether the owner is a government or an individual, on the basis of oil produced. It is common practice to require similar payments in most parts of the world. Texaco's tax payments to governments do not include oil and gas royalties paid to governments and individuals, both at home and abroad. In the years 1970 and 1971, including subsidiaries and equity in affiliates, Texaco paid royalties in accordance with lease terms or concession agreements amounting to $366 million and $425 million, respectively, in addition to its tax payments.

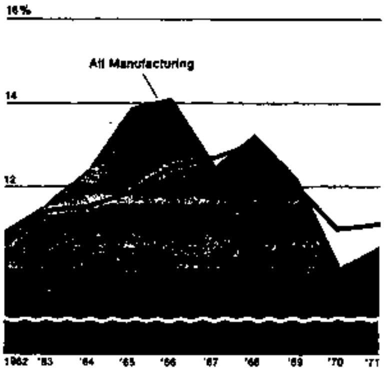
Furthermore, Texaco's tax and royalty payments do not include bonus payments to governments and other landowners to obtain oil and gas leases, such as the substantial sums paid in recent years to Federal and State Governments in lease sales in the Gulf of Mexico and other areas.

The Oil Industry's Profits: Contrary to popular belief, the oil industry's profits are not excessive. The true measure of any company's profits is its rate of return on investment. The petroleum industry's average rate of return on net assets for the ten-year period 1962-1971 was only 11.8 percent, compared with an average of 12.2 percent for all manufacturing industries, according to statistics compiled by the First National City Bank of New York. Furthermore, in seven of the most recent ten years, the rate of return for the petroleum industry has been lower than that for all manufacturing (see Chart 6 on following page).

The petroleum industry must maintain a rate of

Chart 8

Rate of Return in Petroleum Industry Has Lagged Behind All Manufacturing in Seven Out of Last Ten Years



Source: First National City Bank of New York

return that compares favorably with business generally, if it is to generate and attract the vast sums of investment capital needed to find and develop oil and gas reserves. Our nation's sharply escalating demand for petroleum products must be met without undue reliance on foreign sources of supply. As in any other business, direct or indirect increases in taxes would constitute an added cost of doing business. Any such increases in petroleum taxes would adversely affect the industry's rate of return.

Such increases would impair the industry's ability to generate and attract the capital needed for petroleum exploration and development, and would undermine the industry's capacity to meet our nation's energy requirements.

Why tax incentives are necessary —a summation

After some 50 years, the percentage depletion deduction, the expensing of intangible drilling costs, and the foreign income tax credit provisions are basic to the economic viability of the petroleum industry. They bear so directly on the industry's ability to provide necessary products for its customers (who include virtually all other industries) that any significant change in their basic structure would cause serious economic disruptions in the United States. Likewise, any significant change in the more recent provisions for capital cost recovery and investment tax credit would adversely affect the industry's ability to finance its necessary capital investments.

The industry experienced a serious setback following the Tax Reform Act of 1969. That Act, by reducing percentage depletion, imposing an additional 10-percent "minimum tax" on depletion deductions, and eliminating the investment credit, added $600 million to the petroleum industry's 1970 tax burden. This drain on the industry's available capital, which has since been mitigated somewhat by reinstatement of the investment credit, contributed to the precipitous 20-percent drop in the number of oil and gas wells drilled in 1971 as compared with 1969.

In the years ahead, vast amounts of capital will be needed to find and develop the reserves required to satisfy mounting energy demands. Existing tax incentives, capital recovery provisions, and profit margins will permit only the partial internal generation of these funds. The external capital markets will provide the additional sums needed at reasonable rates only if prices and profitability are at satisfactory levels. Disincentives to investment in the petroleum industry that were added by the 1969 Tax Reform Act—particularly the treatment of the depletion deduction as a tax preference item subject to the 10-percent "minimum tax"—should be removed.

What are needed are enhanced tax and other economic incentives in order that the petroleum industry may generate and attract the investment capital that will be required to satisfy our nation's vital energy demands.

Representative REUSS. Let me turn now to another reason you give for the gasoline shortage: "First, import policies in the past have made it difficult to import adequate supplies of crude oil and gasoline from abroad."

Mr. CARD. Right.

Representative REUSS. Is it not a fact that Texaco supported those import policies?

Mr. CARD. No, sir.

Representative REUSS. Did you object to the import quota system?

Mr. CARD. Yes, sir, we have consistently and continuously objected to the sliding scale import program that we had in the past. This is a factor, this is a very important factor, in building refinery capacity without assurances of the supply of crude oil. It is still a factor, in fact.

You must have a supply of crude oil before you invest in a refinery. You must know where you will get the crude oil. This has been a factor that has brought about the situation that we are in today, the former import control policy.

Representative REUSS. You objected to any and all controls on imports, not just the sliding scale import control program?

Mr. CARD. We particularly objected to the sliding scale.

Representative REUSS. Did you object to other forms of import controls?

Mr. CARD. In former years, the import control program served a useful purpose, in our judgment, there is no question about that. As such, we felt for many years that an import control program was needed. However, the way that it was administered and the so-called regulation as it affected the import controls and the amount to be imnorted, and they way it was handled, we objected to that.

Representative REUSS. When did you start objecting to that phase of the import control question?

Mr. CARD. To this phase?

Representative REUSS. Yes, sir.

Mr. CARD. Almost from the very beginning.

Representative REUSS. When did it begin?

Mr. CARD. In 1959. But as far as the import control program itself was concerned, we felt that an import control program was needed in former years.

Representative REUSS. Do you think it is needed now?

Mr. CARD. No, sir.

Representative REUSS. When did you start concluding that it was no longer needed?

Mr. CARD. As the tight supply situation developed. The availability of crude oil in this country, you see, has decreased and the production has peaked out and is now declining. There is an entirely different set of circumstances today as compared with those that existed in former years.

Representative REUSS. In what year did Texaco change its policy of generally approving import quotas to disapproving them?

Mr. CARD. Well, as we saw the production change in this country, the implications for future production, the necessity to import more from abroad to supply the needs in this country, I would say that this probably came about in, probably 1972.

Representative REUSS. Thank you very much, Mr. Chairman.

Chairman HUMPHREY. Mr. Card, just a couple more questions.

Mr. CARD. Yes, sir.

Chairman HUMPHREY. It has been stated that the demand and supply of gasoline are rather inflexible. I mean that they do not fluctuate with great peaks and valleys. There is at best or worst a slight change one way or another. That is especially so in the short run, let us say over a period of 1 to 2 years, a short period of time. You have indicated that to take off controls is one way of alleviating the shortage. You have put emphasis on that because you feel that presently the price structure does not encourage expansion of refineries.

Mr. CARD. Importation of products, importation of gasoline.

Chairman HUMPHREY. How high do you think the price would have to go?

Mr. CARD. Sir, I——

Chairman HUMPHREY. In order to encourage the importation of gasoline and as one factor in the encouragement of refinery construction?

Mr. CARD. Well, first, I would not predict what prices will do. But then, as I say that, I would also go back to my statement on the prices of gasoline in Rotterdam as compared with the prices delivered on the east coast of the United States and the resale prices allowed under the controls. Now, this today is—it depends on the grade of gasoline and other factors—but it is a minimum of 5 cents' difference, and it is probably somewhere between 5 and 10 cents' difference.

Now, as to what it will take, certainly I do not think that many people would be encouraged to buy gasoline in Rotterdam and import it to the east coast of the United States, in order to recover, because of price controls, 5 cents or more a gallon less than what they paid for it. In fact, you would go broke doing that. This is something that many companies in this country would not even think of.

So what I am saying is that I do not think, under price control as we have it today, that importation of gasoline will be encouraged.

Chairman HUMPHREY. How much gasoline could you import if you took off all controls?

Mr. CARD. Well, this is another factor. It is limited. It is difficult to say how much there is: we are in the process of evaluating this now, and so, I am sure, are many other people. But we do know that refineries outside of the United States are constructed to run a different yield of gasoline. As I mentioned, in Europe, they produce under 20-percent gasoline, whereas in this country we get over 40 percent.

Chairman HUMPHREY. Yes.

Mr. CARD. And their demand is growing abroad, too. So we know that the amount that can be imported under the best of conditions is small.

Then you have this specification problem, and we are not sure how fast they can change their capability to meet U.S. automobile specifications. This is a factor we do not know at the moment.

Then the other thing is that we do not know how to foresee the price fluctuations in Europe. Today we know it is higher, substantially higher.

So I cannot tell you. I would not want to give you a number because there are so many things that really have to be very carefully analyzed before we will know how much can be imported.

I do not think, though, it is going to be a great amount.

Chairman HUMPHREY. In other words, it would not be an amount that would significantly affect the supply situation in the States?

Mr. CARD. It will help. It will definitely help, and we need every little bit of help we can get.

Chairman HUMPHREY. Is it not a fact that the major American oil companies are primarily responsible for the price of gasoline in Europe?

Mr. CARD. Sir, the price of gasoline in Europe is controlled to a great extent there.

Chairman HUMPHREY. By whom?

Mr. CARD. It is controlled by the governments. In many countries in Europe, it is controlled by the governments.

Chairman HUMPHREY. Let me put it another way, then. Can you refine gasoline in Europe as cheaply as you can in the United States?

Mr. CARD. The refining cost?

Chairman HUMPHREY. Yes.

Mr. CARD. It is comparable.

Chairman HUMPHREY. It ought to be. Labor costs are less.

Mr. CARD. This is changing, sir.

Chairman HUMPHREY. I know, but it is still less. I always hear one of the reasons things are higher is because of labor costs. Labor costs are not as high, for example, in Italy?

Mr. CARD. It is changing and has changed in the last 2 years. Inflation has been substantial in those countries.

Chairman HUMPHREY. Is it not a fact in all fairness that labor costs are considerably less in some countries?

Mr. CARD. I think they are in some countries. However, in Scandinavia, for example, the situation is different.

Chairman HUMPHREY. Is it not a fact also that the oil most European countries get is imported oil from the same source as ours, the Middle East?

Mr. CARD. The Middle East supplies substantial amounts of it. Of course, some of the North Sea production will be coming on.

Chairman HUMPHREY. But most of it is Middle East.

Mr. CARD. A big part of it is Middle East.

Chairman HUMPHREY. And is it not a fact that the price they pay is the same price we pay, per barrel?

Mr. CARD. Well, you are getting into a whole area of economics that would have to be analyzed. The fact of the matter is that in Rotterdam the prices are higher regardless of the economics, and we do not control those. The price today is what it is, and it is a fact of life. There is no way that this can be changed, that we can change it. We have to reckon with it. This is the price that the owners of that gasoline ask, and I can tell you it would not be our gasoline, it would be gasoline that we would have to buy. Just as we bought over 6 million barrels of No. 2 heating oil. It was not our heating oil that we imported from Europe during the January and February period. We bought this heating oil from other people who had it available and imported it to the east coast of the United States and sold it for substantially less than we paid for it. This was done in that case in order to meet a shortfall. You mentioned Minnesota. We have many places on the east coast that had similar situations.

Chairman HUMPHREY. Yes, sir.

Mr. CARD. So we did everything in our power to help alleviate the situation and intend to do so in the case of gasoline.

Chairman HUMPHREY. How high do you think gasoline prices will go?

Mr. CARD. Sir, I would not predict.

Chairman HUMPHREY. What is your estimate?

Mr. CARD. I would not predict what the price will be.

Chairman HUMPHREY. Are they going up?

Mr. CARD. I would think there would have to be adequate levels to justify those actions required to make it available. Now, I realize this is indefinite, but I will not predict what the price of gasoline will be—I cannot, in fact, because there are so many factors. Price controls, for one thing.

Chairman HUMPHREY. Let us take your argument, price controls off. What do you think will happen to the price of gasoline if we follow your formula? And I am being very serious with you. You know, there is always merit to every man's argument. You would not make the argument if you did not believe it.

Mr. CARD. That is true.

Chairman HUMPHREY. I certainly do not reject your argument out of hand. I would just like to know what you estimate the price of gasoline will be for the average car owner in the United States that uses regular gas, not super but just the regular gasoline I use in my LeSabre Buick. I got a plug in there for Buick.

Mr. CARD. I do not think it will be quite as high as I see in the various publications. However, I have said already that the price of gasoline purchased in Europe for importation into the United States is between 5 and 10 cents a gallon higher than we can recover on the east coast of the United States today. So that is just the comparison of the cost. It does not include expenses associated with bringing that to the customer. You have other factors to add onto that. So, as to what these all amount to, I think you can draw the conclusion that it would certainly be something above what I have indicated to you here on this increment of gasoline.

Chairman HUMPHREY. I did not understand what you indicated. I want to tell you, Mr. Card, you are pretty good. I have not been able to pin you down yet.

Mr. CARD. I indicated between 5 and 10 cents a gallon differential in the landed cost.

Chairman HUMPHREY. Yes, sir. Then we still have transportation.

Mr. CARD. Than you have transportation, marketing expenses, and other costs associated with it. I am really not an accountant. I do not have all those at my fingertips here.

Chairman HUMPHREY. You are doing well not to give me a slight headache here on the price business.

Mr. CARD. But to tell you what they would be, in all honesty it would not be fair or proper for me to indicate to you on behalf of my company what I think these prices would be. I have tried to lay out some of the complicating factors and some of the facts that we are facing, and certainly, we are interested and dedicated to doing everything we can. This is a very serious situation. We want to do everything we can.

Chairman HUMPHREY. All right, now, we take off all the controls. For a minute let us just asume that. Would that meet the demand situation?

Mr. CARD. No, sir, it would not.

Chairman HUMPHREY. And if we took them off, price would go up?

Mr. CARD. In all likelihood, the price of gasoline would go up. In fact, I think that it would have to go up to justify all of the actions required to make the supply available.

Chairman HUMPHREY. Now, we come back to just a quick one on this matter of refinery capacity.

Mr. CARD. Yes, sir.

Chairman HUMPHREY. You said 75 percent internal financing of investment.

Mr. CARD. That is an estimate.

Chairman HUMPHREY. That leaves you picking up 25 percent capital elsewhere.

Mr. CARD. On long-term borrowing.

Chairman HUMPHREY. Is that not a remarkably good ratio for an industry, to have 75 percent internal financing?

Mr. CARD. This is what it was some years back. I have not seen the 1972 figures yet. Now, the Chase Manhattan Bank in New York, as you know, compiles these figures annually and I have not seen them yet. But this amount, Mr. Chairman, is increasing each year—the amount that is required to be financed from outside.

No, I do not think it is a good record.

Chairman HUMPHREY. I think it is pretty good. I do not mean to direct my questions strictly toward the Texaco Co.

Mr. CARD. I appreciate that.

Chairman HUMPHREY. Because as I said in my statement, I think you have been trying to handle your distribution problem on allocation in a fair and responsible manner and I appreciate it very, very much.

Mr. CARD. Thank you.

Chairman HUMPHREY. I have heard this from our own people, by the way, in my home State, and I have been investigating around, I want you to know. I have been stopping to talk to filling station operators, people that are the distributors, and so forth.

Mr. CARD. Yes, sir.

Chairman HUMPHREY. I understand that oil companies already can write off almost all expenses of drilling in the year incurred instead of depreciating them in the normal way as an investment. They can also write off up to half of the total profit under the depletion allowance. Now the President proposes that you be granted a tax credit for all exploratory and drilling expenses.

My question, does not this amount to permitting the oil companies to write off their expenses not only one time but many times over and then to deduct them again from any remaining taxes when other businessmen, including oil distributors, get to depreciate their investments only once?

Mr. CARD. No, sir. You are getting into the area where we need a tax counsel here. I was mainly prepared to deal with the shortage of gasoline.

Chairman HUMPHREY. Yes.

Mr. CARD. I can tell you, though, that in spite of all the accusations you have heard, including whoever prepared this statement, this unjust accusation of the tax-favored treatment of the petroleum industry simply is not true. You are talking about the whole tax structure and the depletion allowance, which was reduced several years ago. Incidentally, the depletion allowance applies only to production, and this is a very important part of the industry's structure to take the risk, and these risks are great. They are not going to be taken unless there is justification. I think all we have to do is to see what happened when the depletion allowance was reduced in the reduction in drilling activity. This is a part of the cause of the situation we are in today. I do not have the rig count with me at hand.

Chairman HUMPHREY. I am familiar with that.

Mr. CARD. Then you know what happened.

Chairman HUMPHREY. I am also familiar with the fact that it was easier to go overseas to get oil, just like what happened in northern Minnesota. We gave favorable tax treatment to the steel industry there, but they were still going on over to Africa and Venezuela because it was cheaper there.

I think, in all fairness—I am not going to argue the tax question here today because that is something for the full committee—but I think in all fairness, while the depletion allowance may have had some effect, and I think that is open for honest debate and discussion, the real truth is that it was cheaper to import the crude, just to go over after it.

Mr. CARD. Let me say this, that it is true that the companies have looked for oil anywhere in the world. This is true of our own company. And thank goodness they have, because if oil had not been found and made available from elsewhere in the world, I think this country, instead of being in the situation we are today, would be in a far, far more critical situation than it is. But as far as finding it overseas, outside the United States, and bringing it in is concerned, I must remind the group that we still had import controls and it was not possible to bring in unlimited amounts of crude oil that was found abroad.

Chairman HUMPHREY. I realize that.

Mr. CARD. It was highly limited, in fact.

Chairman HUMPHREY. Just another question or two. Have you proposed to build refineries and been blocked by environmental considerations, and if so, how many and where?

Mr. CARD. Mr. Chairman, in that regard, we do have under consideration at the present time additional refining capacity. We must have it. As far as announcing where it will be and what this capacity will be, I would be divulging proprietary information at this point, because there are a number of items under negotiation at this very moment that do depend on whether or not we can get this capacity. But we are definitely planning it.

Chairman HUMPHREY. Are you having trouble with environmental impact studies holding up your decisions?

Mr. CARD. At this moment, we do not have an application pending, but we expect to have in short time and hopefully, it will be approved at the time it is requested.

Chairman HUMPHREY. Getting back to this licensing business or the approval of a site, how long does it generally take to work that through the processes of State and local government and the Federal Environmental Impact Agency?

Mr. CARD. It is about a minimum of a year and a half under the rules that we have had. Now, with the President's message and his interest in finding a way to shorten this, we are highly hopeful that it can be reduced substantially. And actually, as you have probably seen, some companies have tried and tried, and there have been cases where they have finally just given up and have not been able to get permits to build capacity——

Chairman HUMPHREY. Is it necessary to have all these refineries right up on the ocean, on the seaboard? Many of these refineries?

Mr. CARD. Well, they are are not all on the seaboard, as you know.

Chairman HUMPHREY. But the Gulf—most of your refinery capacity is in the Gulf States or the eastern seaboard.

Mr. CARD. Well, we have 12 in Texaco, and while some are in the coastal areas, there are also many inland. I believe there are about six and six, about evenly divided—six inland as well as six on the coast.

Chairman HUMPHREY. But for the industry as a whole, am I not correct that the major amount of refinery capacity is in the Gulf States area and not on the eastern seaboard?

Mr. CARD. I do not have a breakdown of it, but I would say this: There are many reasons for locating a refinery on the coast, of course. Being able to move products in large tankers—we have not gotten into this, but this is another important consideration. This is certainly the logical way to bring in crude oil to handle it by the most economical means.

Chairman HUMPHREY. I have many questions I would like to ask of you but we have other witnesses. Mr. Card, you have been a cooperative witness. One of the things that is very disturbing to me, just as a citizen as well as a Senator, is the fact that we just let this thing come upon us without the planning that was necessary. I do not even see the planning yet.

I read the President's message. As I said, I thought there were many constructive features in it. But surely, it was no secret that we were going to have environmental controls on automobiles. I remember being in Detroit in 1966, when one of the large motor companies told me they needed at least 5 years, and in 5 years they could do it. Then comes 1973, and the same company says we need more time. In the meantime, they make bigger and bigger automobiles, and, by the way, engines without environmental protection devices that were wasteful in the fuel consumption. Right in this room a month ago, there was a full report made, a highly classified report, as a result of a 2-year in-depth study on the fuel needs of this country, the energy crisis. I might say that had the public heard that report, and I hope they will—I have been encouraging the Joint Committee on Atomic Energy to publish their report—there would be some real concern in this country far and above what there is.

But the automobile has become a wasteful user of the petroleum products that you and your companies and other companies sell. The automobile of the 1950's was the most economical user of petroleum products. Then they started getting them bigger and faster and also put more gadgets on them. All this to drive shorter distances with more stop signs and greater traffic congestion; 375 and 400 horsepower just to get across town. You have to be a lunatic to let this happen to you.

You go up to New York and take a look at what is happening. Take a look at Philadelphia. Go to Washington, D.C. See what we do in terms of the use of petroleum products. Surely we must have known we were going to have problems.

When I say "we," I do not mean just Government. I do not think it is fair to put it on Government, because Government is not supposed to be that smart. We are reminded every day that we are not that smart. But there are some people who are supposed to be intelligent, like bankers, business managers, scientists. They are supposed to be smarter than we in Government, according to everything I have read all my life. And we end up with an industry really unable to serve the public's need. And it is going to get worse, is not it, before it gets better?

Mr. CARD. This is what I said in my statement, that it will become worse because of the long leadtimes required.

Chairman HUMPHREY. That is what I am getting at, that long leadtime, because we just did not face up to it.

Well, it will not do any good to scold, but it seems to me rather incredible that we could not fashion in our minds some idea of what was happening to us.

Mr. CARD. Mr. Chairman, I would like to make three more points quickly. One is, I think I should clarify that in the United States Texaco is producing all the crude oil that it can.

Chairman HUMPHREY. Refining all you can, is that right?

Mr. CARD. Refining all we can. We are endeavoring to purchase crude oil in the United States to keep our refineries running at full capacity.

Another point you mentioned, that I estimated a 5-percent shortfall. In my text, I said that some had estimated 5 percent, supply would be 5 percent short of demand. It was not necessarily my estimate, but there are sources, reliable sources, who have estimated up to 5 percent.

Chairman HUMPHREY. I have seen that figure as well.

Mr. CARD. Then the final thing relating to your comments. I would like to say that certainly Texaco, and I believe this is true to some extent of the industry as a whole, could and did foresee some of the acute results of some actions that were taken in 1970, particularly the 1970 Clean Air Act. We were not consulted. We tried desperately to get some of these messages across. While no one can foresee what will be the exact circumstances in the future, we knew very well where we were headed with regard to increased oil consumption because of the restrictions, the specifications; and as you know, on July 1, 1974, the service stations in this country must have one grade of no-lead gasoline in 60 percent or more of the stations and all of them doing over 200,000 gallons a year or more. Nothing has been done in that regard yet. While there has been a year's delay with regard to the automobile manufacturers' meeting these specifications, nothing has been done with regard to the petroleum industry's having to meet the specification that has been outlined to it. This is going to take increasing amounts of a product that is in short supply.

Chairman HUMPHREY. Well, your testimony is very informative and forceful and we thank you very much, Mr. Card. Just keep that gasoline flowing out there and that fuel oil. We really need it.

Thank you very much and thank your associates.

Mr. Card. Thank you.

Chairman Humphrey. The next witness is Mr. Millard. I understand that Mr. Millard and Mr. Baker want to appear together.

Mr. Millard, I understand that you will testify first, is that correct?

Mr. Millard. Yes, sir.

Chairman Humphrey. Thank you. We have Mr. Millard, Mr. Baker, Mr. Walcutt, and Mr. Bode.

Mr. Millard, proceed, will you?

STATEMENT OF WALTER H. MILLARD, JR., PRESIDENT, TRANSIT OIL CO., INC., ACCOMPANIED BY WILLIAM H. BODE, COUNSEL

Mr. Millard. Thank you.

My name is Walter H. Millard, Jr. I am president of Transit Oil Co., Inc., of Louisville, Ky. I am also a director of the Independent Terminal Operators Association.

I have been in the oil business for 35 years, and I can state categorically that I have never seen the supply situation as bad as it is at the present time.

My company is a relatively small wholesale terminal operator and retail marketer. We have almost 9 million gallons of storage capacity at our terminal on the Ohio River at Louisville, and we operate about 35 retail service stations. Traditionally, we have been the principal wholesale supplier to about 50 independent service stations.

In the aggregate, both wholesale and retail, we should be selling between 40 million and 50 million gallons of gasoline in 1973. However, because of the supply conditions, our volume this year will be so substantially reduced that our ability to compete may disappear forever.

Traditionally, we have purchased gasoline from seven or eight suppliers. However, this year, we have been able to purchase gasoline from only one of them. All of our regular suppliers and other refiners who logically could supply us have either refused to sell to us altogether, or severely limited the volume of our purchases, or raised the price to a point where we cannot afford to buy.

Perhaps I should state at the outset that we are an "independent." We buy and sell for a living. We perform a vital economic function in the distribution of petroleum products. We do so efficiently and offer more service to our customers than the integrated oil companies. But, we are being squeezed out of business because we do not control any supply.

Like many other terminal operators, our storage tanks have been dry from time to time this year. Like many other private brand, retail marketers, our service stations and those of our independent accounts have been forced into various reactions: some stations have been closed, some have operated on shorter hours, and some have posted prices equal to or higher than the major oil companies. These reactions are absolutely contrary to the tradition of private brand, price-discount marketing by independents.

Independent marketers are the price competitors in gasoline marketing. They have kept the majors honest for years. They are also the innovators of marketing methods. They have invented nearly every marketing concept that has been accepted by the public. The independent companies are the ones that give the consumer a real choice and a fair shake. The selling costs by independents are 5 cents to 7 cents a gallon less than the selling costs normally experienced by major oil companies. It is the overall economic efficiency of the independent that is of benefit to consumers. Yet, the effect of the supply situation is a threat to the survival of the independent.

In my view, the task of survival is beyond the powers of any trade association or any group of companies. The power and authority of Government must intervene if independents are to be saved.

Let me explain how the threat works.

The refiners of America will naturally sell their product to their own in-house marketing outlets. If anyone gets cut off, it is the independent buyer-reseller. The independent is, therefore, bearing the burden of the current supply crisis to a disproportionate degree. This burden is so great and so widespread that the independent marketing sector in its entirety may suffer such attrition in the next 6 months as to render it unable to perform its traditional economic function. If the independent sector dies, the consumer will be at the mercy of the majors, and competition among the majors is a matter of each trying to imitate the other, rather than compete in price and service with the others.

As I stated before, it is my view that the authority of Government must be utilized to control the distribution of available petroleum products so as to avoid a radical and undesirable change in the competitive structure of the oil industry. Let me cite one way in which this might be done.

The operation of the Oil Import Appeals Board should be primarily directed toward the distribution of foreign finished products through independent marketers. Refiners should not be allowed to import finished products. Indeed, they should be encouraged to build refineries here at home, rather than to import foreign gasoline.

I submit that if it were announced as a matter of national policy that independent marketers are the only authorized importers of gasoline, an element of orderliness would be injected into a presently chaotic foreign market. Foreign manufacturers of gasoline are aware of shortages in the United States. They are taking advantage of that fact. Their prices have been increased so substantially that independents are almost precluded from buying abroad. This fact is aggravated when integrated American refiners are competing with independent American marketers. Integrated buyers tend to pay more for foreign gasoline, and they are not as firm in bargaining as the independent. America should send out its toughest bargainers into the foreign product market for the duration of the supply crisis; that is, until we can build new refineries here at home.

Gentlemen, the prospective regulations and guidelines to implement the Presidential proclamation reforming the oil import control program should establish the proposition that independent marketers are the chosen importers of finished products as a matter of national policy.

The assistance of this committee in establishing this proposition would be deeply appreciated.

Chairman HUMPHREY. Thank you.

I think we will go on to hear from Mr. Walcutt and then go on to questioning.

Mr. Walcutt, identify yourself for the record.

STATEMENT OF DEAN WALCUTT, EXECUTIVE VICE PRESIDENT, CERTIFIED OIL CO., ACCOMPANIED BY CARLYLE BAKER, PRESIDENT

Mr. WALCUTT. I am Dean Walcutt and I am executive vice president of Certified Oil Co. We operate in Ohio, Kentucky, West Virginia, Indiana, and Pennsylvania.

I am also one of the founders of the new Independent Gasoline Marketers Council and I am appearing here today on behalf of that council.

Perhaps I should state at the outset that the council consists of 19 of the leading independent gasoline marketers in America, doing business from coast to coast. Collectively, they operate over 3,500 retail service stations and employ over 12,000 people. Their aggregate gross sales are about 4½ percent of all gasoline sold in the United States. The council represents 20 to 30 percent of the entire independent marketing segment of the gasoline industry.

The supply problem facing the independent marketer is deadly. The loss of employment and the financial hardships endured by individuals and small companies are not realistically reflected in the broad statistical picture. Nevertheless, let me give you the best figures the council is able to produce concerning the shortage.

The shortage of gasoline experienced by the members of the council at the present time is estimated at 1,480 million gallons. This is about 49 percent of last year's requirements for the same group of companies. This means that the independent sector, as a whole, is short about 6 billion gallons of gasoline. How does this come about?

The United States simply does not have enough refining capacity. Therefore, the integrated manufacturers of gasoline react by cutting back or cutting off their sales to independent marketers. The refiners prefer to reserve their limited supplies for their own integrated marketing outlets. Hence, the independent marketer is unable to buy the quantity of gasoline he requires.

In contrast, the integrated marketer is being supplied as fully as his in-house refiner can supply him. For example, it was announced a few days ago that Sun Oil Co., identified as the 10th largest oil company in America, has been obliged to ration its sales to its jobbers and dealers. The essence of the announcement was that Sun Oil Co. would have to limit deliveries to about 90 percent of normal. Indeed, it was stated by a representative of Sun that its retail dealers would probably not run out of gasoline, unless the independents in the neighborhood were completely out of gasoline, thus forcing the public to do business with Sun exclusively.

My purpose here is not to criticize Sun Oil Co. My purpose is to illustrate the problem. It is natural that the integrated refiner would cut off sales to outsiders. But, when this natural behavior occurs throughout the entire oil industry, the result is that the independent marketer is forced out of business.

We see no way in which this peril can be regarded as self-correcting. The time required to construct new refining capacity is 3 years or more, and no independent marketer can survive on half rations or less for 3 years.

It is our view that the authority of Government must be utilized to correct the situation and to achieve an equitable distribution of all finished products throughout the country for the duration of the shortage, which may mean for the next 5 years or more.

In our view, the most recent period of time in which so-called normal conditions prevailed was the year from July 1, 1971, through June 30, 1972. If that year is regarded as normal, then we submit that sales of all finished products by each refiner should be made in a pro rata basis to all its historical customers during that base period. Instead of cutting out independents altogether, independents should get their fair share.

We realize that the definition and administration of such a program raises a number of technical problems. However, we submit that unless those problems are met head on, the Nation will lose the entire independent sector of the oil industry. There will be a radical change in the competitive structure of the industry. A giant step toward domination by the large, fully integrated oil companies will have been taken. And, the public will pay the price. It is not pure fantasy to anticipate that gasoline may cost a dollar a gallon in the absence of price competition from the independent marketer, even if there were no shortage.

May I conclude by saying a word about my own company. Certified Oil Co. operates about 265 stations in 5 States; namely, Kentucky, Indiana, Ohio, Pennsylvania, and West Virginia. I must say, however, that as of last week, as a result of gasoline shortages, we were forced to shut down 40 of our company-operated service stations. We have sharply reduced operating hours at the majority of our stations that remain open. I might add our annual sales are about 140 million gallons.

Never before have we asked the Government for anything. We have no tax advantages, such as percentage depletion or foreign tax credits, and we have no control over our supplies, such as our integrated marketers enjoy by having under the same corporate roof refining capacity and crude oil production.

For 34 years, as an independent, we have competed with the integrated marketer and have done very well, regardless of the tax and other advantages available to him. We have steadily increased our share of the market. We have grown because of our efficiency and because we offer the public the best possible bargain.

Only now, with more than half of our supplies in jeopardy, do we appeal to the Government, to the Congress, and to this committee. We submit that a way must be found to share the shortage.

Chairman HUMPHREY. Thank you very much, Mr. Walcutt.

Mr. WALCUTT. Senator Humphrey. I have two or three other comments that came up as I was sitting here, if I may have another couple of minutes.

Chairman HUMPHREY. Indeed you can. Are we going to hear from Mr. Baker, too, and Mr. Bode?

Mr. BODE. I have no prepared statement.

Chairman HUMPHREY. You are just here to answer questions?

Mr. BAKER. Yes, sir.

Chairman HUMPHREY. I understand, Mr. Walcutt, that you spoke for Mr. Baker as well?

Mr. WALCUTT. That is correct.

Chairman HUMPHREY. Go ahead.

Mr. WALCUTT. In the last year, we have had increases in the cost of our product of as much as 7 cents a gallon at the cost level. That is not overwhelmingly the case, but that is the trend.

Chairman HUMPHREY. That is not including the tax?

Mr. WALCUTT. No, I am just speaking of increase of price in gasoline, excluding the taxes. Seven-cents increase. That is certainly not an average, or we would have been broke a long time ago, but the trend is there, that our increase in cost is eating us up.

I also feel that the sharing of the shortage that I mentioned, that is, to see that they allocate the supplies to the same type marketers as before, would also cure the problem of the cities. Like Detroit, now, does not have any product to run its vehicles. If the same suppliers, whoever they might be, that supplied them in the base period mentioned above were to go back to that, Detroit might not have all it needs, but it would probably have 95 percent, and so would we.

One other point that I think is real important is that the large oil companies—let us take the Big Eight—most of them to some degree or another supply independent oil companies, but in addition to that, they sell a large or a substantial amount of product through brokers.

Chairman HUMPHREY. Yes.

Mr. WALCUTT. These brokers then supply the independent, but this relieves the large companies and allows them to make the misstatement that they do not supply independents. Now, they do not supply independents directly in most cases, but a large segment of their product, and I do not know the percentage, but 5, 10, or 20 percent from different companies gets into the independent market. That is what keeps the price to the consumer down, that we have had adequate supplies. If they say they are willing to go back and supply the same amount to independents that they historically supplied, but they never supplied any, but yet they did supply the brokers that supplied the independents, this should be considered, too.

I might mention that allocation on a fair basis, about which we heard from the previous witness, I think needs full disclosure of historical rates of supply to customers and policing of these allocations, if this is to be the system adopted.

Chairman HUMPHREY. That was the point that I was trying to address myself to in terms of some kind of allocation board.

Mr. WALCUTT. I know.

Chairman HUMPHREY. Whether it had power of law or whether it was in a supervisory capacity to see whether voluntary agreements or understandings were lived up to.

Your statements, both from Mr. Millard and you, Mr. Walcutt, indicate that you do believe that there is a definite fuel shortage, is that correct?

Mr. WALCUTT. Yes, absolutely.

Mr. MILLARD. Certainly.

Chairman HUMPHREY. Worldwide, marketwide, in the United States?

Mr. WALCUTT. Yes, sir, worldwide.

Mr. MILLARD. Absolutely.

Chairman HUMPHREY. Am I interpreted correctly that the thrust of your statement is that while this shortage is a fact, the shortage is being used by majors to eliminate independents?

Mr. WALCUTT. Absolutely.

Mr. BAKER. Yes.

Chairman HUMPHREY. And you document that with the information that you have given us in terms of the availability of supply?

Mr. WALCUTT. Yes, sir, and it can be documented in a thousand other ways. I can touch on a couple, but I do not have all the stuff here that I would need to go into it.

We have a great increase in earnings by the major oil companies and, at the same time, the independent supply has been sharply curtailed, especially in the west coast areas of our country. Now the price support to the dealers of the major oil companies, which causes price wars as a whole, or which sustains price wars, has been totally eliminated nationwide by virtually every company in the last 6 months, during the same time the independent supply has been curtailed.

Now, I am not telling you it is a conspiracy; I am telling you that there is a shortage, and that the automatic thing to do is to keep your own stations open, meaning the major companies, and sell what you have left into the independent segment of the market, and since there is less left, our share of shortage goes up, disproportionately to the majors.

To follow that point, if there is a 5-percent shortage in product in the Nation and you take that 5 percent from the independent sector that sells 20 percent of the total volume, then that sector is a fourth short, and that is about what is happening right now.

Chairman HUMPHREY. Do you have any indication, any evidence, that the majors are opening more outlets for their own controlled, integrated operation?

Mr. WALCUTT. I was in Phoenix, Ariz., yesterday, and I saw two brand spanking new ones opened within the last month or two, one by each of the two largest, I believe, or two or the three largest oil companies in the world.

Chairman HUMPHREY. Mr. Millard.

Mr. MILLARD. I might add that I am not trying to contradict what Mr. Card of Texaco has said, but in the fall of 1971 I bought a barge of fuel from the Texaco Co. They had solicited my business for a number of years, having done business with me for several years prior to that many years ago—there was a lapse of many years. They did solicit me, and I bought a bargeload. Then in December of 1971 I bought another bargeload. It was supposed to hit my dock like December 17. On December 14, they announced that they would not ship it. And, of course, it was fuel oil, which is desperately needed. You are from Minnesota, but I will tell you that homes in Kentucky get just as cold as they do in Minnesota. I was born in North Dakota, too.

Chairman HUMPHREY. What do you estimate the price of gasoline will go to if your independents are eliminated?

Mr. MILLARD. If I might say so——

Chairman HUMPHREY. Well, let us not say eliminated. If the present process that is underway continues.

Mr. MILLARD. I appreciate Mr. Card's feeling on that particular line, too, but basically, if they brought in all of the gasoline that they needed—I am not speaking of Texaco, I am speaking of the major oil companies—if they brought it in and then resold not just that particular gasoline, but sold us the proportionate share of it which we have been enjoying for many years, the average price would be raised practically nothing. Because if you throw it in with the billions of gallons they have, it really does not raise their overall cost but doggone little, averaging in their imports.

Chairman HUMPHREY. In other words, the amounts that come in would be of such small——

Mr. MILLARD. It means nothing to them. To us it is dear. To them, it is nothing, really.

Chairman HUMPHREY. What do you think will happen to the price of gasoline under the present situation? What is going to happen, gentlemen?

Mr. MILLARD. Well, we know our costs—he was relating it to his costs. I am a barge buyer, which is just a little bit different.

Chairman HUMPHREY. Do you want to explain that for the record here?

Mr. MILLARD. Well, a barge buyer is someone who is—well, it depends on the time. Currently, I would say it is not so advantageous to own a terminal. But I happen to own a terminal. There are some 11 of us, I think, on inland waterways, Mr. Chairman. That is all that is left. There used to be many of them. Today, our price is up 3⅛ cents a gallon over what it was a year ago January. So in 15 months, we are up 3⅛ cents. This has never been heard of before.

Chairman HUMPHREY. That is just your price at the wholesale level?

Mr. MILLARD. Yes, sir; and our retail prices have not really gone up any, because the tank wagon—I remember you asked also about the tank wagon price—there has been hardly any change in the tank wagon price, I believe, since 1970, throughout the United States.

Chairman HUMPHREY. Any comment, Mr. Walcutt, on your part? The public is very much concerned about this, you know.

Mr. WALCUTT. Senator, I honestly feel that the price of gasoline has to go up, because there is just no incentive for drilling new wells, building new refineries, and things of this nature. But it should go up in proportion to the costs, and they have gone up.

Now, the other side of the coin is that if the independent would be eliminated from the market, then I think you would have a more sharp increase, because we are a definite factor in holding the price down to consumers. We market on a much more economical basis. I think all companies, large and small, would indicate that the independent is the innovator of the new marketing policies, the reducing of cost per gallon in getting it into a car.

Chairman HUMPHREY. I am going to ask the staff here in your presence to work with the councils and the other organizations of the independent oil dealers, whether they are independent refineries, independent wholesalers, or independent filling station operators, to get us some more solid statistical evidence as to the effect of the independent operator on the price structure in the gasoline and fuel oil market. I just think that this record needs more positive, all-encompassing evidence than really what you can present today. This is not to be critical of your presentation, but I would like more evidence from a larger spectrum of the market.

Mr. BAKER. Senator Humphrey, there has been a great deal done on this already. Senator Saxbe has presented a bill that will take care of our problems.

Chairman HUMPHREY. Tell me about that bill.

Mr. BAKER. His bill says, and I do not have it exactly in front of me, but it operates to the effect that you will sell historically to the people that you sold to before and that you will sell at price increases that are in direct proportion to any price increases that you charge your own dealers. I think if we have that, it will settle most of our problems.

Chairman HUMPHREY. Very good. I introduced a little measure—you know, every author of a bill is like father of a child, or a mother, in that it is the cutest one, you know, in town. Mine is Senate Joint Resolution 98. I gave you a very subjective judgment of my proposed legislation, and I will say that, as an experienced legislator, I have always understood that when you introduce a bill, it is primarily to get something before the legislative assembly to work its will—to get hearings, to get the testimony, to make the adjustments, the refinements that are necessary. I am sure that my friend and associate, Senator Saxbe, would feel exactly the same way.

This bill is a Senate joint resolution. Just let me read it a little bit to you:

"(*a*) That the President shall, after public hearing, conducted with such notice, under such regulations, and subject to review as the exigencies of the case may, in his judgment, make appropriate, provide 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 anticompetitive effects resulting from shortages of such products.

"(*b*) To expedite the implementatiion of the directives by the President, as authorized by this resolution, there shall be created in the Executive Office of the President an Emergency Fuels Allocation Board (hereinafter referred to as the "Board"). The Board shall be composed of five members who shall be appointed by the President by and with the advice and consent of the Senate. The members of the Board shall serve through the duration of authorities provided for under this resolution. The President shall designate one of the members of the Board to serve as Chairman. The members shall be representative of the production, transportation, marketing, and use of all fuel resources, and of executive departments and agencies having a significant responsibility in these respective areas."

Then we go on down here on the members and tell what they shall do. The purpose of this resolution is to carry out the proper allocation.

We also have in this legislation a base period, which is to be agreed upon, and the time frame which the witness suggested, 1971 to 1972, seems a logical base period, a normal one.

To provide that certain specific movements of oil take place, the resolution stipulates here, for example, the importation of crude oil in sufficient amounts to meet the input requirements of coastal refineries; the importation of No. 2 fuel oil in amounts sufficient to build up stocks; the importation of finished gasoline to insure that adequate domestic product, which would otherwise be distributed in east and gulf-coast markets, is channeled for delivery to inland shortage areas; the allocation of sufficient supplies of diesel and other fuels to railroads and electric utilities and motor transporters to provide essential services, and so on. Under my policy or practice of allocations by refiners to marketers, any reduction of supplies by a refiner to any customer whom he has supplied regulatory over a reasonable past period shall be in line with quotas established by the board utilizing this base period in which regional supplies and demands were in approximate balance, and the same percentages and reductions shall be applied to all customers of such a refiner, regardless of whether such customers market under the refiner's brand name or other brand names.

Mr. BAKER. Let us get it done.

Chairman HUMPHREY. I gather this is much the same thing as Senator Saxby's measure.

Mr. WALCUTT. It is much the same thing. He also mentioned price in his thing, that price shall be in proportion.

Chairman HUMPHREY. I think that is essential.

Mr. WALCUTT. The two together are very compatible is what I am saying. They say virtually the like thing.

Chairman HUMPHREY. What I am trying to get at in that language—Senator Eagleton, as you know, has been involved in this, a number of Senators. We all talk about it and come in at the same time with our legislative proposals. What I am really asking is, do you think it is necessary to have some governmental authority to assure compliance with whatever kind of allocation may be arrived at?

Mr. WALCUTT. Absolutely.

Mr. BAKER. Absolutely.

Mr. MILLARD. That is the only way. It is the only thing.

Chairman HUMPHREY. I would like very much to ask your counsel, any of you, in fact all of you, to take a look at these respective bills. Do not worry about who is the author at all. Just take a look at what you think ought to be the pertinent or relevant features of a bill and what power such a board ought to have and how it ought to operate.

For example, the reference to price, I think, is very good. We do not have that in our resolution here.

Mr. MILLARD. Mr. Humphrey, I think in the President's Proclamation 4210, his heart was in real good condition at the time, but he gave the major oil companies some $880 million at that time in that action.

Chairman HUMPHREY. Yes, sir.

Mr. MILLARD. In reduction of the import tariffs. That is about what it amounts to.

Chairman HUMPHREY. Just explain that a little bit. I do not think the general public understands that. I saw an editorial or two on it, but I would like to——

Mr. MILLARD. Well, it is by the new fee system for bringing in oil from abroad; they are exempt from the fees that would otherwise be paid over the next 7 years. It is down proportionately.

Chairman HUMPHREY. Would you not think that that should be passed along to the consumer?

Mr. MILLARD. Well, it will not be passed along to us, I am sure, and we cannot pass it along to the consumer. If we share in it and if they will just give us the proportion of the products that we have been buying over lo, these many years and prorate their cost increases to use based on all of their product and not just their foreign products, we will still give the public a fair shake.

Chairman HUMPHREY. Let me ask you now, do you serve a lot of rural areas?

Mr. MILLARD. Yes, we all have a lot of rural stations out in the areas.

Chairman HUMPHREY. The farm population?

Mr. MILLARD. We do not service tank-wagonwise. You do not, do you, Mr. Walcutt?

Mr. WALCUTT. No, we have a lot of stations in rural small towns of 500 or a thousand people. We sell gas in drums to farmers but we do not have rural delivery routes to farmers.

Chairman HUMPHREY. One of the problems we are running into, as you know, is availability of proper types of fuel for tractors in the planting season. I am worried, as the flood recedes in the south area along the Mississippi River, that we are going to have serious problems. And there is every indication from the information that I have received thus far that it could be very, very serious.

Mr. MILLARD. I am sure that it will.

Chairman HUMPHREY. Which in turn affects, might I say, the production program or the production estimates, crop estimates, that the Department of Agriculture has projected.

I might just toss in here, it is not just a fuel shortage that we are facing. This fuel shortage, if I might expand it to even natural gas and propane, could wreak havoc, literally havoc, upon the food supplies of this country. The soybean, the corn, the feed grain people use, as you know, forms of fuel—there are many different forms—for purposes of drying, and the difference between drying and not drying sometimes ruins as much as 10 and 15 percent of the crop. Since I am also chairman of a committee that has been hearing evidence for weeks and weeks on the possibilities of our production—which, by the way, very little attention seems to be paid to, but people will wake up about November when they are short of it—I can tell you that a 5-percent shortfall on the crop estimate in this country, a 10-percent shortfall would be catastrophic—catastrophic. Prices will go right out through the roof. Supplies will just not be there, there will just absolutely not be enough feed supply around here to take care of our animal industry and the price of beef that we are getting now will look like a donation to the Little Sisters of the Poor.

So we are involved, believe it or not, with the energy crisis. The fuel shortage relates to food production—fertilizer, tractor fuel, and fuel for purposes of drying crops. That is the difference between agriculture in this country and in many other countries, those factors—fertilizer, transport, and drying capacity and storage. Because you cannot store it without drying, you know, so it is all tied together.

I just came from one committee this morning, called the Committee on Agriculture, and it is like you are talking about two different rooms in the same house, all tied together. Because if you men cannot service through your industry the agricultural population in its needs, just forget it. You will not be worrying about whether you can drive a car, you will be worrying about whether or not you are going to pay $5 a pound or $4 a pound for beefsteak. And people do like steak around here.

I have a question here that I want to toss out to you, Mr. Millard.

So long as the majors are under the current price controls, you independents will be the only ones who can afford to import gasoline, if Mr. Card's remarks about the prices of imports are true, isn't this right?

Mr. MILLARD. I do not know where he got that statement, but that is impossible. We cannot import gasoline and sell it at the going prices that the majors are being held under. I think the majors have to have relief, sure. There is no way—we cannot buy gasoline overseas, or offshore as it is called, and pay—and I think he was entirely correct in his statement, saying that it is 5 to 10 cents a gallon higher than it is in this country. I had some offered to me, delivered in Detroit, no less than Thursday, and it was a way that I could actually get it exchanged and picked up in Louisville and it was going to lay down in Louisville at 36½ cents, including taxes. Well, gee, 37 cents is retail in Louisville. So you cannot very well buy gasoline like that, you know.

On top of that, excuse me, other people told me I should have bought it.

Chairman HUMPHREY. Do you have any indication that other countries, for example, are buying up large supplies of fuel? For example, I happen to know one country that is buying a lot of food supplies right now, paying exorbitant prices to get certain types of feed grains, far above the world market price, and far above any published quotation. Do you see any indication of that, hoarding, so to speak? The country that I am speaking of in the food area is Japan. They are paying way above market prices for certain types of food, knowing—I think they are sharp buyers. I think they know what is going to happen. Do you have indication of that on storage of gasoline or fuel oil in other countries?

Mr. MILLARD. I do not know that. I would think the gentleman ahead of us would probably be more familiar than we.

Chairman HUMPHREY. Mr. Baker, here is a question that was prepared after looking over some testimony. Under what conditions did you normally buy gasoline from the majors in the past?

Let me rephrase the question. How much did you buy in the so-called spot market?

Mr. BAKER. We have always operated pretty much under contract with the major companies and we have been operating with these same companies for a good many years. Right now, we are on allocations from 90 percent, 80 percent, depending upon the company. At the same period of time, our sales have gone up. The allocation is based on last year and our sales have gone up maybe 30 percent. So instead of looking at maybe a 20-percent lack of product, we are looking at almost a 50-percent lack of product.

Chairman HUMPHREY. Have you traditionally bought at, above or below the prices paid for gasoline by franchise and company-owned stations?

Mr. BAKER. The independent market was always somewhat less than the franchise stations.

Chairman HUMPHREY. Are you able to pass that along to the consumer?

Mr. BAKER. Yes; we operate at normally 3 to 5 cents below the franchise.

Chairman HUMPHREY. I think your argument about the importance of the independent marketer to the consumer is vital and the more testimony we can get on this, if it can be verified, it will certainly be helpful to the committee.

Are all independents down to half rations or is there a selective or regional pattern to the cutoff?

Mr. BAKER. I think a lot of it depends upon how much crude the selling company has. If you are a crude-rich company, you are in pretty good shape. If you are a buyer of crude, as a refiner company, you are not in as good shape.

Mr. WALCUTT. There are some independents, though, that are closed entirely, their entire chain of stations. I am not talking about those that operate on a 20-State basis. I am talking about those that have 20 stations in one area and their one supplier has cut them off. They are closed. I know of one man that operates about 300 stations that may close 75 percent of them in the next 3 weeks.

Chairman HUMPHREY. I understand that in one or two cases, independent distributors have obtained relief from the supply shortage through the courts. Are any of you considering this route?

Mr. MILLARD. That is sort of a last resort, but we would consider it, certainly.

Mr. BAKER. We have always had very favorable relationships with our people and the people we are buying from now are doing a marvelous job for us. They are giving us a percentage of what they have. But we are speaking also for the council and some of these people do not have that favorable situation.

Chairman HUMPHREY. You know, I noticed this figure here that I quoted from the Petroleum Industry Research Foundation—are you familiar with that foundation?

Mr. BAKER. No.

Chairman HUMPHREY. This is a study of the outlook for gasoline and its impact on the independent marketers. The report was made in March 1973. I will have to ask the staff, which was given this report. Do you have any more information as to who the supporters are of this report?

It is a foundation with broad support in the industry, both majors and independents, I have been assured.

The point raised here is that there is about a 2-percent shortfall. Mr. Card thought that it might be up to 5—that is the figure that he had heard. I guess we have all heard from 2 to 5 percent shortfall. And the independents are 30 percent of the market, is that correct?

Mr. BAKER. Yes, about 20 to 30.

Mr. WALCUTT. About 25, possibly.

Chairman HUMPHREY. Then how do you explain the serious damage already being done to the independents if there is only a shortfall of about 2 percent?

Mr. MILLARD. We get it all. We get the whole shortage. Or we have gotten it.

Mr. WALCUTT. I think the 2 percent is somewhat underestimated. Let us say it is 5.

Chairman HUMPHREY. Let us say it is 3½ or even 5.

Mr. WALCUTT. If 5 percent of the whole industry is short, that means 95 percent of the product is available. But the 95 percent is going to 80 percent of the stations, and the other 20 percent are standing the whole

5-percent shortage, which is a fourth of their supply. So we as a segment are presently about a fourth short on supply.

To give you an idea, we have in our own company already closed 40 stations, curtailed the operations of 70 more, and have gone to the maximum price at which we can possibly stay in business and still give any advantage to the motoring public.

Chairman HUMPHREY. Does the President's energy program that he announced for easing imports restrictions and providing production incentives, contain anything that will aid you in your current situation?

Mr. Millard, Mr. Walcutt, Mr. Baker, and Mr. Bode.

Mr. MILLARD. Well, I think under the proclamation, he did give to the east coast terminal operators allocations of 50,000 barrels a day, which does help them in this same feedback that I was talking about a moment ago, that the major oil companies were enjoying. But we as independent terminal operators in the Middle West, which takes in your area, do not get anything.

I do not think that basically it is going to help us at all.

Mr. BAKER. With the price controls on the major companies, even if we bought gasoline, it would cost us 10 cents a gallon more. How could we sell it?

Mr. WALCUTT. We would be priced at the retail level or above that. So any allocation we get of the product, it is 22 cents in New York, 2 cents to get it into Ohio is 24 and 10 cents tax is 34, and you have not even marketed it yet. You have not gotten it out of your terminal station in Ohio. So it is going backward. No, it does not help.

Mr. MILLARD. If you are going to keep the controls on the major oil companies as such, then you have to find some way to keep controls on our costs if we are going to stay in business. As I mentioned a moment ago, I think that could be done if the major oil companies are permitted to bring in the foreign products. At least if they prorate it to us on the same basis that they do to their stations and to their franchise outlets and at an average price, including their products made in this country. And it certainly will not be any nickel a gallon.

Chairman HUMPHREY. Have you made any presentation of this type of argument to the Cost of Living Council?

Mr. MILLARD. No, sir. I have appeared here over the last 2 years complaining about the shortage, Senator. I am surprised that you have not heard of it.

Chairman HUMPHREY. Well, I have heard about it. Do not misunderstand me.

Mr. MILLARD. But for better than 2 years, I have been up here several times.

Mr. BAKER. About 2 weeks ago, there was a conference at the Treasury Building, and a gentleman from the Cost of Living Council was there and I told him the same thing.

Chairman HUMPHREY. Very good.

Gentlemen, I could keep you here much longer, because I have a lot of questions, but you have something else to do and we have another witness. I want to accommodate that witness now. Unless you have something further that you would like to add——

Mr. MILLARD. No, sir. Just help us out.

Chairman HUMPHREY. May I express our thanks. We are going to do everything we can. We would appreciate through your council, your offices, any evaluations of proposals that are before the Congress so we can pass it on to the appropriate committee.

Mr. WALCUTT. Mr. Bode is with our attorney firm here, and I am sure he will be in contact with you.

Chairman HUMPHREY. Mr. Bode will work with our committee staff.

Our next witness here today is Mr. James Erchul. Mr. Erchul is the director of civil defense of the State of Minnesota.

Mr. Erchul, I am sure that you have been plagued by telephone calls from my office from time to time. We are deeply appreciative, may I say, for your cooperation in testifying at this session. I want to commend you for the splendid job that you have been doing in our State to meet the fuel oil needs and the gasoline needs of our people.

We welcome your testimony, and I want you to proceed.

STATEMENT OF F. JAMES ERCHUL, DIRECTOR, CIVIL DEFENSE DIVISION, DEPARTMENT OF PUBLIC SAFETY, STATE OF MINNESOTA

Mr. ERCHUL. Thank you, Mr. Chairman. I appreciate the opportunity of being here with you today.

My name is James Erchul. I am director of the Civil Defense Division of the Department of Public Safety, State of Minnesota. It has been our job during this past few months to coordinate the State's responsibilities in reacting to the shortage of petroleum products as it began to appear. We first got active in this in the early part of December, when it was heating fuels we were talking about, not transportation fuels. At that time, Governor Anderson directed us to take a survey, to look into just exactly what was beginning to happen. It was obvious to us that the shortage was already upon us and that we needed to take some drastic action.

Shortly after that, Governor Anderson declared an emergency in the State of Minnesota and began looking into the posibilities of allocating fuels and some even more drastic measures. He made a public appeal to the general populace of the State, asking them to take whatever conservation measures they could to reduce the consumption of fuel products.

Shortly after that, Governor Anderson requested that the President of the United States declare a disaster for the State of Minnesota due to the shortage and asked help from the Federal Government in solving the problem. The Office of Emergency Preparedness came into Minnesota, reviewed the situation, and decided it was not quite as bad as we thought it was.

Governor Anderson then asked the State Legislature to form a joint committee and investigate the fuel problem, and they have been doing that right along, since about the end of January.

The supply of transportation fuels in Minnesota continues to dwindle. As we approach the time of year when gasoline and diesel fuel consumption will reach its peak, we find that the supply of these products to the independent dealers is a mere trickle compared to what it was.

Minnesota's plight in the fuel shortage is somewhat unique in that we are experiencing all of the factors contributing to the nationwide petroleum supply problems such as inadequate refining capacity, the need for further offshore drilling, and a cumbersome system of import quotas. In addition, however, two major suppliers, Gulf and Sun, have stated that they intend to discontinue marketing in Minnesota. Bell oil and Triangle Refineries have already discontinued their independent operations. The Koch Refinery of Pine Bend has been operated by supervisory personnel for several months while their usual work force is out on strike. The Koch Refinery produces about 100,000 barrels per day under normal circumstances and is down to about 60 percent of that at this time.

Petroleum supplies ordinarily provided by the cooperatives have been drastically reduced because they have not been able to get the crude oil necessary to operate their refineries at anywhere near capacity. Midland Cooperatives, for instance, only recently reopened their refinery at Cushing, Okla. They had closed it just after the first of the year due to the lack of crude oil. At present, they are able to operate at only 60 percent of capacity. In Minnesota, the cooperatives account for about 60 percent of the fuel supplies sold to farmers. Unfortunately, the landlocked refineries such as Midland's have no access to foreign crude. Prior to the lifting of import quotas, they were able to get domestic crude by trading their import tickets. Now with no quotas involved, their tickets are not tradable. In the instance of most inland refineries, they would not be able to use the kind of crude oil that is available on the foreign market today. Most available foreign crude is apparently of the "sour" variety and not compatible with the refining capability of these inland refineries.

Some people insist there is no shortage and that it is only a figment of imagination. But it can happen, and it is happening in Minnesota right now. In recent weeks, we have received the following reports, as examples:

(1) Metro 500 has been forced to close all of its gasoline stations and to lay off over 200 workers. No gasoline.

(2) Planned expansion at Duluth International Airport is threatened because the major charter airlines planning stops there are unable to secure contracts for 12 to 14 million gallons of jet fuel.

(3) It is reported that Advance United, Werner Continental, Briggs, and Glendenning, all major freight truckers, are unable to renew contracts for gasoline and diesel fuel. Some of those contracts expired yesterday.

(4) In Glencoe, the municipal electric plant is unable to secure a diesel fuel contract to operate its generators.

(5) The State of Minnesota is able to get contracts for fuel only on a short-term basis, 30 days.

The fuel shortage is more than just the requirements of one State. It is a part of the worldwide energy crisis now facing us. The short-term explanation for why the shortage is occurring is this: Our shortage is due to a combination of factors that have suddenly converged—ecology, technology, and economics—each playing an important role. Industry spokesmen cite the need for the Alaskan pipeline, further offshore drilling, and the lack of refining capacity as major reasons for the shortage. In addition to these reasons, the fact remains that we, first as a nation and ultimately as a planet, are just plain running out of oil. Where the petroleum industry used to be able to tap gushers of crude easily, they now get only a trickle. There is enough crude oil underground to supply the world for perhaps another hundred years. Unfortunately, it is located in the wrong place as far as the United States is concerned.

National demand for oil at this time is for about 15 million barrels per day. The best our domestic oil fields can produce is about 11.5 million. Thus we must turn to imports for the balance. It has been estimated that imported oil will account for some 30 percent of our total supply by 1975. The world oil market is somewhat unstable, and there is very little happening that would indicate improvement in the near future. The overall foreign trade picture demands that we limit the purchase of foreign oil. Overybuying of oil could very well increase our trade deficit to endanger the dollar in the world monetary market. For security reasons, we must avoid too great a dependence on foreign oil. We cannot place ourselves in a position where the oil-rich nations can maneuver us to suit their desires or ambitions; already a group of the oil-rich nations have gotten together to successfully manipulate prices. What is to stop them from next demanding arms or political concessions?

We in Minnesota have monitored the situation carefully. In recent weeks, it has been deteriorating rapidly. For the most part, the problem is out of our hands. Minnesota is not in a position to take unilateral action. All of our fuel must come from outside the State.

If the nationwide shortage is going to be as harsh as what is indicated for Minnesota, one of the immediate needs is for a plan that will apportion an appropriate share of the supply available to each State. If a State could be assured of, say, 90 percent of the amount used the previous year, there would at least be a basis from which to plan allocations and establish priorities. If industry is allowed to establish its own allocations it will be profit oriented rather than based on a balanced share.

In some instances industry has begun programs of conservation. I believe very strongly that Government and industry should get together in a unified appeal to the public, asking everyone to take suggested steps in conserving fuel. Such things as lower driving speeds, using public transportation, and organizing car pools could actually have a marked effect on fuel usage if the general public were approached properly. The most effective way of launching such a campaign would be for the President to take a leadership role with a public appeal for appropriate conservation.

Alaskan oil, offshore drilling, and new refineries are 5 to 7 years away. In order to avert a disaster we must take these short-term steps now.

In summary, Mr. Chairman, I would like to indicate that some of the figures we have kicked around here today are most pertinent as far as we are concerned in Minnesota. We have heard of a 2-percent shortfall, a 5-percent shortfall, perhaps, and like the independent dealers, we look at it as a single State. We do not feel that we are going to experience just a 2- or 5-percent shortfall in Minnesota; our peculiar position geographically puts us on the far end of the pipeline, so to speak, with all kinds of leaks in that pipeline from the source to where it finally reaches us. We foresee at least a 10-percent shortfall in Minnesota, which would certainly be disastrous.

We foresee that shortfall at a time when we are talking about expanding agricultural production by 11 percent. We see projected increases in the use of gasoline of some 7 percent on a statewide basis, perhaps even higher than that. Now these people are telling us in Minnesota that they are going to abandon the market completely.

So if individual companies allocate to us even at 98 percent, we are still going to be very short in Minnesota. Consequently, we have to appeal for some kind of an allocation that will give to each State as such a proportionate share of what it got in previous years, whatever the base year would be. So that these people who are telling us that they are going to leave our State entirely, to quit marketing there, will at least wait for a while, until adjustments can be made, until this new refinery capacity can perhaps be generated, until the offshore drilling can be completed, so that we will be able to balance this thing.

I would like to read a portion of a letter that the Sun Oil Co., one of those companies that are abandoning Minnesota as a marketing area, has sent to its dealers. It points out very clearly that the problem is going to be much greater than what is indicated on a nationwide basis. They say here:

> Your business is located in an area where the Company has found it unsafe to market economically. It is our desire to withdraw from the marketing of gasoline, diesel fuels, and heating oils in your area. The Company is reluctant to take this course of action and is doing so only after a thorough review of all the facts. We are certain you as a businessman can appreciate our position. Therefore, since the company will be unable to renew its present agreement at its expiration, please consider this your notice that effective June 1, 1973, Sun Oil Company of Pennsylvania is terminating the jobber franchise agreement dated June 25, 1957.

This is true throughout the whole jobber sector in Minnesota by the Sun people and it is a similar story with Gulf. So if other majors are going to supply at only 100 percent of what they are selling before, or less than 100 as has been indicated today, we have a much greater problem on our hands than has the Nation as a whole. We need at least some idea of how much is really going to be available so we can do the emergency planning necessary to get us through this critical period.

Chairman HUMPHREY. Mr. Erchul, I want your office to take a look at some of the proposed legislation before the committees of Congress. There are a number of bills, as you know. Some of them go into what are considered anticompetitive practices; that is, possibilities of action by the Justice Department under antitrust laws. There are other proposals that relate to fuel allocation.

I introduced on the 18th day of April Senate Joint Resolution 98 relating to nationwide gasoline and oil shortages. To be very blunt about it, I introduced it after consultation with Mr. Gartner in my office and others in your office and with members of the legislature at home and after consulting other reports that we were getting from around the country. I had the staff here of the Joint Economic Committee to give me some valuable assistance in the preparation of this resoltuion. And I noted what you said here. I said that, because Midwest States are at the end of the pipeline, they have been the first to feel the pinch and continue to be especially hard hit by the scarcity of fuel in the light of evidence that has been available from some of the States such as Minnesota, Iowa, Wisconsin, and other States in that area. The question that I would like to pose to you is how serious do you consider—well, let me put it this way before I get to the seriousness of the situation.

There have been recommendations made, as you said here, about the Alaska pipeline, about offshore drilling, about new refineries, and even about a trans-Canada pipeline. Is it not true that practically all of those measures are 3, 5, 8 years down the road?

Mr. ERCHUL. Mr. Chairman, we think in our State that these things are all 5 to 7 years down the road, that they are not an immediate answer. The President's energy message was excellent in the long-range view, but it fell far short of supplying our needs for this summer and next winter.

Chairman HUMPHREY. I have been trying now since about the 18th day of April to get some interest in this little bill here. I do not say it is the only one. I have read all about the President's message, all about the Alaskan pipeline, all about the trans-Canada pipeline. Just to put it bluntly, we will freeze to death before that stuff gets here. I have been saying so since I have been out home.

I was out talking to the chamber of commerce at Wayzata. I spoke to the Minneapolis Grain Exchange about the problems of fuel and their food crisis. I have introduced this legislation. Quite honestly, it has been almost impossible to get any public notice. People do not even know there is legislation before this Congress.

Were you aware of this bill?

Mr. ERCHUL. Not that particular bill, no.

Chairman HUMPHREY. Very interesting. But you were aware of the fact that we have been discussing the trans-Canada and the Alaskan pipeline?

Mr. ERCHUL. Yes, sir.

Chairman HUMPHREY. Which will do about as much good in the next few years as blowing smoke up through an igloo.

Mr. ERCHUL. Yes, sir. It is not the answer in the short term and we need something like your bill to get us over the interim period. No question about it, we are in dire straits right now until something like the Alaskan pipeline can happen. All of this gets fine publicity and is nice reading. However, it is not the answer. If people are allowed to quit selling in an area, it is just going to complicate matters that much more as far as we are concerned.

Chairman HUMPHREY. We have to have some system of fair allocation, is that not what it boils down to?

Mr. ERCHUL. Yes, Mr. Chairman, that is exactly it. We do need some kind of a regulated allocation, at least for the short term while we can plan.

Chairman HUMPHREY. That is what I am talking about, at least for the next year, 2 years, until we can get hold of something here.

Mr. ERCHUL. Yes, that is correct.

Chairman HUMPHREY. Every bit of testimony I have read, and I now have somebody, fortunately, on my staff, who is with us here today as a congressional fellow, working specifically in this area of energy, and I have been here in this room, as I have said before, going through in-depth briefings on the energy crisis that the Joint Committee on Atomic Energy has prepared, as well as the Joint Economic Committee, and everything tells us just one thing. If you are a real optimist. I mean if you are just a little loony and a real optimist, 3 years will give you some relief. But if you are a pragmatist, a practical person, you are really talking 5 years. Is that about right?

Mr. ERCHUL. Yes, sir, that is what it seems every indication is.

Chairman HUMPHREY. Do you have any indication that the weather is going to get better in Minnesota in the next 5 years?

Mr. ERCHUL. Mr. Chairman, it is most unusual, as you have already stated, that we had the mild winter that we did. We cannot depend on that. We are going to be in trouble next year.

Chairman HUMPHREY. And I read from the automobile industry that they intend to sell about 11 or 12 million more automobiles next year and that they will take from the road approximately three to four, so there will be a net gain of automobiles of anywhere from 8 to 9 million on the roads consuming more gasoline. We will have our share in Minnesota, is that not right?

Mr. ERCHUL. Yes, that is absolutely correct. Given the amount of gasoline we have, I am afraid we are not going to be driving those automobiles, but rather, looking at them.

Chairman HUMPHREY. Does the Minnesota Civil Defense Office, of which you are the director, have plans to conserve or ration gasoline or other fuel in the State?

Mr. ERCHUL. Mr. Chairman, we have no absolute ration plans.

Chairman HUMPHREY. I did not mean a stamp rationing system, but I mean an allocation system.

Mr. ERCHUL. We have talked about an allocation system based on priorities, giving top priorities to emergency services—hospitals, police, things of that sort—and ending up with luxury driving, tourism, and so forth. But, you see, one thing we are most concerned about at this time is that we are entering into the season for what is one of our greatest industries, the tourism business. The last thing we want to do is take action as a single State that will drive away the tourist.

If people in Illinois and Iowa get word that Minnesota is leaning toward rationing gasoline, they will be frightened away and go someplace else this year. The tourist industry has been calling that to our attention regularly. We do not feel that a single State could successfully perform an allocation on its own by itself.

Chairman HUMPHREY. I would think that would be most unfair and most likely unworkable.

Mr. ERCHUL. Yes, mostly unworkable. It just cannot be done according to everything we have tried to work out.

Chairman HUMPHREY. Am I correctly informed that sometime, either in December or January of last year, your office in cooperation with the trucking companies and the petroleum industry got some emergency fuel oil in from Canada?

Mr. ERCHUL. Yes, sir, Mr. Chairman. It was a very difficult alternative in that it was awfully expensive. We were able to make contact with people in Canada who were willing to sell it. However, the price was very high and the cost of transporting it, which at that time had to be by truck, was just about prohibitive. However, we were faced with the bus authority, for instance, in the Twin Cities just about running out. Their contract had been canceled upon expiration. Consequently, they were one that had to go to Canada and get that oil.

The same was true with Midland Cooperatives, who were forced to close down their refinery. They are not as profit-oriented as some other businesses are, so they were willing to absorb the cost of going to Canada to get the fuel oil there, and the diesel oil. But it has happened and there are people continuing now to get it. There is no gasoline available there, however.

Chairman HUMPHREY. I took a survey at home this last week and I found that the three issues that the people of Minnesota were talking about were Watergate, gasoline—that is, fuel—and prices generally. These are the three things. One of them was obviously the immediate impact of what is so evident in the press and the media today of the concern over the so-called Watergate situation. But when you really got that out of the way and disposed of it the way most people were disposing it, in the sense of disgust, they come right down and say: "What are you going to do about this fuel situation?" I was in my office and I want to say I had one person after another—the motor transport people, the bus people, the agriculture people, the Midland co-op people, everyone you can think of—just pouring in there talking to me about the energy problem—I mean the fuel problem that we are going to face. Not only that we do face but that we are going to face this fall and this winter. Do you find this situation to be characteristic of other States? Do you have contact with your associates in, let us say, the Dakotas, Nebraska, Iowa, and Wisconsin? Do you find any comparable situation?

Mr. ERCHUL. Well, Mr. Chairman, we talked with our counterparts, in all neighboring States anyway. Nowhere has it gotten as bad as it has in Minnesota for any length of time, but others, too, felt the same shortage through the winter and are now talking about it in gasoline. Wisconsin in particular is telling us the very same story that we are telling them, that independents are going out of business. Independents in Iowa are going out of business. In Minnesota alone the past month, there have been well over a 100 of these small stations, independents, usually cut-price stations, that have just closed down, locked the door and called it quits. They are not getting 50 percent, they are getting zero percent. It is a very difficult situation.

Chairman HUMPHREY. Have we not had stations that are closing down part of the week and shortened their hours of business?

Mr. ERCHUL. Oh, yes, there are another 200 that are doing that, operating only daylight hours, giving only 10 gallons at a time. That is not widespread yet, but it seems that, within the industry, that is what they are talking about as their next move, to cut the amount they will sell to any one person.

Chairman HUMPHREY. As I said earlier today, the Minnesota Motor Transport Association came to meet with me, outlining what they considered the critical situation they face. They said they want to know honestly from me what we are going to do about it. I said, look, brothers, it is going to get worse before it gets better. I had to tell them what appeared to me to be the truth.

The only answer I can see is some system of allocation. Do you think it can be done effectively by private voluntary means?

Mr. ERCHUL. Mr. Chairman, I have thought about that since it was suggested here this afternoon, and I am sure that the industry people should be part of an allocation system. Their suggestions should be listened to and adhered to, perhaps, to some extent. However, I do not think that they alone have a broad enough interpretation of what really is necessary. I feel that their orientation toward profit would be such that they could not really do an effective job. I think it needs a combination, Government and industry together.

Chairman HUMPHREY. Do you expect imports to the east coast terminal centers, the big deep water ports and all, to permit adequate diversion of domestic crude and gasoline to the Midwest?

Mr. ERCHUL. Mr. Chairman, on the contrary, we do not see that happening. There was a big move to import fuel oil early in the spring and it did not increase our supply markedly at all.

The big problem is that the lifting of quota systems seems to have worked in reverse on the situation of some of our people that refine for Minnesota in that it keeps them from getting the oil they were getting before rather than helping them.

Chairman HUMPHREY. Because they could trade in their tickets before?

Mr. ERCHUL. Yes. Before, their tickets were worth something. Now they are worthless.

Chairman HUMPHREY. Well, I want to thank you very much, Mr. Erchul, for coming today. We compliment you on your leadership out in the Midwest. I personally again want to thank you for your cooperation with our office. It has been exceedingly helpful. I wish you could come down and take a look at the mail that we have on the fuel situation. That is one of the reasons this hearing is being held. I actually have given up on knowing what to tell people, except to tell them what we are doing legislatively and hopefully bring some pressure to bear on the majors to make available this fuel on a fair and equitable basis.

Mr. ERCHUL. Thank you, Mr. Chairman. We will do what we can right along with you and hope we can get some solution for this interim period.

Chairman HUMPHREY. Thank you very much.

Our next witness is Mr. Anderson.

I am sorry to keep you so late. Mr. Anderson, would you come forward?

Mr. Anderson, you are chairman of the Subpanel on Research and Development for Fuel Economy of the Transportation and Energy Panel, is that correct, of the Department of Transportation?

Mr. ANDERSON. Yes, sir.

Chairman HUMPHREY. Well, the work of your Panel has been stressed here today on the matter of fuel economy and conservation and we will surely appreciate any testimony that you can give us today.

Proceed.

STATEMENT OF WAYNE S. ANDERSON, CHAIRMAN, SUBPANEL ON RESEARCH AND DEVELOPMENT FOR FUEL ECONOMY OF THE TRANSPORTATION-ENERGY PANEL, DEPARTMENT OF TRANSPORTATION

Mr. ANDERSON. Mr. Chairman, my name is Wayne Anderson. I am permanently assigned at the U.S. Army Tank-Automotive Command in Warren, Mich. During the past 15 years my position has been that of director of the Propulsion Systems Laboratory, which deals pri-

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marily with engines, transmissions, and drive lines for military vehicles. This experience has caused a very close association with the automotive industry at large. Because of that experience, I was loaned to the Department of Transportation to assist in their studies. One of the activities within the Transportation Panel dealt particularly with R. & D. to effect fuel economy in vehicles as they now exist. It focused on the coming 5-year period.

The technique we used to address this problem was to assemble 15 experts, automotive experts, and arrive at a consensus of their experience and judgment as to what could be done with the machines in service today to reduce their demand for fuel. So I speak to you as an engine engineer today, not as a representative of an institution or an organization, but as part of the study [1] that was sponsored by the Department of Transportation. May I share with you in digest form the six statements that I have and then I would point out certain illustrations in the backup material that may be of particular interest.

Chairman Humphrey. Yes, indeed. We would like to make this—this will all be made a part of our record, the entire testimony.

Mr. Anderson. Very fine, sir.

In summary, then, these experts may be identified by affiliation. They represented the three major car companies in this country; they represented universities that are particularly active in engine research. They also represented the independent research institutes such as Southwest Research Institute, and agencies of the Federal Government. That was the cross-section of the group. They concluded as a matter of consensus:

(1) That technology is available to apply to the car and the truck to save energy in the future.

(2) That a realistic cumulative potential energy savings is 30 percent—that is in this zero 5-year time frame.

(3) That energy-conserving changes will result in higher initial costs to consumers even though life costs more likely will be less.

(4) That, due to other cost increases stemming from Government standards, the consumer is less likely to be receptive to additional cost for energy conservation.

(5) That providing the consumer with factual information concerning fuel savings potential, coupled with the building of demonstrator cars and trucks, is expected to reinforce consumer demand to the threshold level for "free enterprise" to take over and supply energy-conserving vehicles. For this procedure, timing is uncertain.

(6) That stimulation and acceleration of the transition referenced in 5 above is the key to the early achievement of fuel savings and appears to be vested in sectors other than technological.

Next, I would like to call your attention to selected references. The first one is identified as viewgraph No. 8.[1] If that is handy to you, sir, it shows the main approaches that were examined in rather complete detail. This is what could be done. I call your attention to the lefthand column, the first item under "A", tire design. This particular innovation can be applied now and will result in a minimum of a 10-percent energy savings across the fleet if production capacity exists in this country to produce the necessary steel-belted radial tires.

[1] See study, beginning on p. 61.

The other main thrust was what change could be made in new production. That is on the righthand side.

Then I would ask you to move on to viewgraph No. 12,[1] where the group quantified the expected savings in energy for each of those new production features. You will note that the small car is not innovation. That trend is already established and is occurring. The other changes require a number of people to do a number of things: Relief from planned emission controls, for example. The Clean Air Act of 1970 is directly influencing the use of energy to the extent of a 20- to 25-percent penalty from the 1968 to the 1976 model car.

I would then call your attention to the last statement on viewgraph No. 13,[1] where it is restated that "in any event, the largest contribution to save fuel in early time frame would be the introduction of a tire with reduced rolling resistance, which in turn could lead conservatively to a 10-percent reduction in fuel consumed."

Now, on that particular feature I would like to make one more comment. It is a very simple one technologically, there is no limit to its use. You can put it on your car. Trucks in particular have a very great advantage. Some of our controlled experiments have provided data indicating a 28-percent savings in fuel for intracity trucking, where speed is low and the primary power demand is to overcome rolling resistance, not air resistance.

Finally, I would like also to go beyond the group's conclusions and refer to viewgraph No. 15.[1] This now comes as an observation of one engineer, yours truly. It was not a consensus of the group, but it is one engineer's opinion. That is that if we concentrate substantial resources on our engines, we could in a reasonable period of time achieve compliance with the clean air requirements with miles per gallon as shown. Leading the list would be the introduction of a special kind of diesel engine into the passenger car, with expected mileage of 21 miles per gallon as compared to what we foresee now in the 1975–76 period for the conventional controlled auto at 10 miles per gallon. That is an array of a technical preference that evolved from the study. It is not supported by all of the experts. It is one engine engineer's opinion only.

With that, Mr. Chairman, I will complete my statement at that time and see if there are questions I could attempt to address.

[The attached study to Mr. Anderson's statement follows:]

SUMMARY OF R. & D. FOR FUEL ECONOMY IN AUTOMOTIVE PROPULSION OR BACKGROUND SUPPORT FOR: A 40-MILE-PER-GALLON CAR

ORAL PRESENTATION: SAE NATIONAL MEETING, JANUARY 1973, DETROIT, MICH., AND TRANSPORTATION AND ENERGY SESSION, JANUARY 9, 1973

(By Wayne S. Anderson, U.S. Army Tank-Automotive Command, Warren, Mich.)

Thank you Professor McGowan. As always it is a pleasure to share experiences with fellow SAE members. This morning I will address background for a hypothesis: "A 40-Mile-Per-Gallon Car" As many of you know, the Office of Science and Technology has supported studies to develop future demand vs. availability information concerning the energy situation that faces our country and to identify R&D goals to provide relief. One of 10 major panels addressing transportation facets of the energy problem, was called the Transportation-Energy Panel. I had the pleasure of serving as a member of this panel and in particular to serve on one of eight working groups conducted by that panel. The name of that group was R&D For Fuel Economy in Automotive Propulsion. The

[1] See study, beginning on this page.

approach was to assemble a well informed cross section of automotive engineers from industry, universities and government agencies with a goal to pool their experiences and to project what changes in the typical car and truck could result in substantial energy savings at the earliest possible time. Major concentration was placed on next five years, and secondary emphasis on the five-to-ten-year period. This work session was conducted in May of 1972. We had 15 members who shared their personal and institutional experiences. This morning I will share those composite experiences with you. At the completion of my presentation of record of this event I will also share my personal forecast of the technological limits to achieve the goal of a "40 Mile-Per-Gallon Car".

First lets put the transportation and particularly the highway vehicle demand on energy into perspective.

Viewgraph 1

This illustration depicts the total US energy use broken up into two major categories: residential industrial and commercial vs transportation.

You will note that the basic reference is for 1969 and the projection is forward to year 2020. Units for this energy are in BTU's $\times$ 10^{15}. Note that total energy use is projected to increase to 182 from the 1969 reference of 53. Also significant for our future consideration is the fact that 28% of total energy in 1969 is consumed by transportation and will continue at the 27° level in the forward year of 2020. Examination of the transportation demand in more detailed breakout is shown on the next slide.

Viewgraph 2

In this case we will look at the demand for transportation only. That transportation demand is subdivided into four categories; bus-rail- & ship, truck, air and auto. Note that the auto demand in 1969 is 52% of the total transportation demand. Air in the 1969 reference is only 14%. The forward projection to 2020 shows a significant shift to air at 36% with both trucks and autos declining, auto's to the 36% level.

Viewgraph 3

We are looking in particular at the oil portion of the energy situation. Now we have the U.S. total oil demand and the transportation oil demand shown. I call your attention in particular to the U.S. production rate, the lower trace on curve, as compared to world production of oil (upper curve). You will also note that U.S. production in 1969 was about equal to the U.S. transportation oil demand. To meet the total U.S. oil demand still required some 25% import. Although I am obliged to defer further analysis and forecast of the future oil market to experts in that field, a safe conclusion is that with regard to oil, the situation is to become acute in the foreseeable future. Now that we have agreed that transportation energy and in particular the demand for oil is significant lets go back and look at typical performance maps of the two types of vehicles which will consume most of the oil—the passenger car and the truck.

Viewgraph 4

On this viewgraph is shown a typical sedan weighting about 4000 pounds with a performance at 1970 level. For convenience of illustration a four-speed stick transmission is shown which provides a simplified presentation wtih N/V ratios, dependent. Power requirements are shown starting with 0% up to a 10% grade. I call your attention to the power required to move the car. At 80 miles per hour up a 6% slope. air horsepower is the dominant requirement, grade horsepower is second and the rolling horsepower is third. The upper boundaries of the saw tooth curve represents gross flywheel horsepower and the third or lower boundary represents net power available to wheels. The upper area is fan and accessories losses and next transmission and drive line losses, and the larger area below the two saw toothed areas and above the 0% grade line is an indication of driveability or driver option power. Your attention is invited to what might be called excess power since this vehicle can negotiate a 10% grade at about 80 mph in high gear.

Viewgraph 5

With this array or power requirements in mind lets look at viewgraph 5 which depicts a similar map for a 25,000 pound truck. For simplicity the transmission shown is a five-speed stick. Now I call your attention to the power required at 42 mph. You will note that for this vehicle to negotiate a 3% grade has required a shift from 5th back to 4th speed and this will provide about 45 mph, maximum speed. When the grade increases to 6% it is necessary to shift back to 3rd speed with about 27 mph. speed achievable.

You will also note that at the first referenced 42 mph. speed of the grade horsepower required now is No. 1, rolling power is No. 2 and air resistance power is No. 3.

Viewgraph 6

On viewgraph 6 is depicted an island curve of a gasoline engine which might be installed in that 25,000 pound truck. Now let's examine more closely how the engine matched with drive line ratios permits the operator to match his engine and vehicle to achieve a minimum fuel consumption. Note the dotted 1% grade line and the point adjacent at 47 mph.

At that particular speed-load condition, fuel consumption is about .63. That power is also available at lower engine speed (visualize horizontal projection to the left to intersect the dotted green line), and better fuel consumption which is about .54. That particular transition could be accomplished by a ratio change of approximately 1.42 to 1. Such an overdrive speed would then provide the equivalent vehicle performance delivering the same power but at a more efficient engine speed-load. Hence the fuel advantage is a reduction of .08 over .63 or approximately 13%. This is typical of the advantage of "load-factor" or drive-line matching. It could be achieved by several means, one of which is to offer more ratios or steps in the transmission. Such an action generally results in a premium cost for the drive-line elements.

Hence for a 25,000 pound GVW truck we expect that load-factor adjustment could provide about 13% energy savings at a cruise condition. Due to the higher power-to-weight ratio, the car expectation is greater and could approach 20–25%. Applying this kind of modification, our workshop estimated that 10–15% energy savings would be realistically achievable over a duty cycle.

Viewgraph 7

Similar consideration was applied to 11 approaches and the resulting consensus judgements of the group are shown here in terms of benefits in percent of energy savings. These 11 approaches were divided into "now" and "later" categories, then ranked and reexamined for production readiness time. Then we made elemental estimates of cost to consumer and adjusted the ranking of the 6 surviving near-term potential innovations. There follows a set of 4 slides to illustrate such a manipulation.

Viewgraph 8

The group emphasized that short-term energy savings could best be achieved by changes introduced now to the 100 million vehicles on the road. Any change applied to new production would be limited to the 10 million new vehicles produced annually and hence full energy benefit would accrue after 10 years.

Viewgraph 9

The radial tire advantage is outstanding in potential because of the possible early application to many of the 100 million vehicles in use today. The lower portion of the slide represents future production changes with full value of energy savings on each vehicle built and introduced to service.

Viewgraph 10

Reexamining and concentrating on two future production time periods of 0–5 years and 5–10 years forward, we noted that all but item 5—the lean fuel/air (stratified charge or Diesel) engine—could be available in the 0–5 year category based on a known technology. With reasonable development efforts the lean fuel/air engine is expected in the 5–10 year period.

Viewgraph 11

Now the less attractive side of the coin—what is the expected change in acquisition cost to the consumer? Would it be more or less, and high or low in each category? Our group loosely defined low as about $100–200 and high as $300–500. For example item 7—small base engine (6 cyl. with turbo vs 8 cyl. naturally aspirated)—is expected to cost the consumer slightly (around $100) more, due primarily to the cost of the turbo charger and controls which exceeds the differential between the 6 cyl. and the 8 cyl. engine.

Viewgraph 12

Here is shown a reranking based on elemental cost-benefit considerations. Note that the group displaced the lean air/fuel engine to number 5 position. This list represents composite experiences and judgments of a 15-man jury about May 1972. By either changing membership of the group or time and place of the meeting I would expect some variation of opinion.

However, this particular output of May 1972 is basis for a hypothesis as described in following conclusions and recommendations.

Viewgraph 13

Conclusions.

Viewgraph 14

Recommendations: In closing I would like to share with you my personal prediction of how various engine types rank to provide most energy conservation for the car. "The Car" is the family sedan weighing 4300 pounds, and units of conservation are miles-per-gallon over the Federal Driving Cycle. The more I have thought about the workshop consensus which I just reported the more I have been attracted to the virtue of the Diesel.

Some of these subtle inherent advantages are: excellent SFC, absence of pumping loop, amenability to turbo charging and fuel trim of torgue rise, and a healthy appetite for rather wide band of fuels not requiring high octane or lead additives.

Some associated limitations are startability, noise, and odor. I am prepared to rank car engine choices to be faced in the 5-year and perhaps even the 10-year forward periods. My "guesses" are shown on this final slide.

Viewgraph 15

Assuming there are about 100 people in the audience I don't expect more than 100 different opinions unless you talk me into changing my mind.

Based on the foregoing I predict that the most energy-conserving family sedan weighing about 4300 pounds and achieving 1970 acceleration and performance levels, but complying with 1975–76 Emissions Requirements, would be one with a Diesel engine with precisely matched drive-line. Such a vehicle should approach 21 miles per gallon.

To achieve another step toward "40 mpg" would require a smaller car approaching 3000 pounds with frontal area reduced to 75% and Aero Drag (Cd) reduced to 50% of present models. Such a set of boundaries support the technological forecast of about 25 mpg. This would require application of a systems engineering optimization of the 6 factors in the base report, including the use of radial tires.

Unfortunately the "price" to the consumer to buy the energy-conserving car would most likely be at least $500 more, if the Otto cycle engine were rematched, since the engine after "treatment" is expected to be similar to present plans. I suggest that the more ambitious goal (the lightweight Diesel) could reduce the acquisition cost premium and offer a potential energy savings as high as 50%.

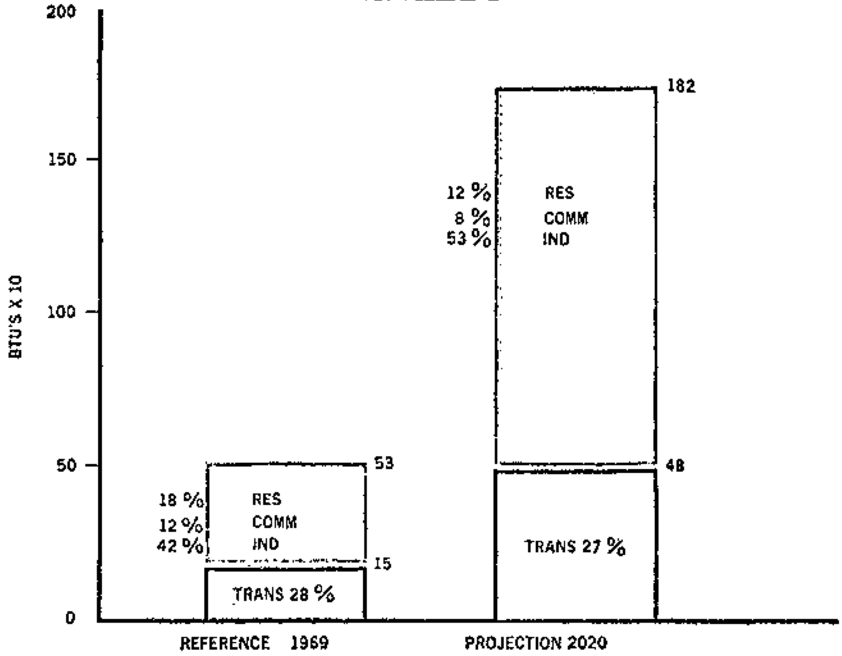
Thank you for allowing me to share with you one memorable occasion of my engineering career, i.e., my recollections of Workshop #8, which included 14 members of the automotive "intelligencia" and one Pennsylvania Dutchman—Anderson.

I also thank you for allowing me to voice a personal forecast via my last slide. Please remember that it is my forecast and does not represent a considered opinion of the 14 experts.

I would be happy to try to answer your question.

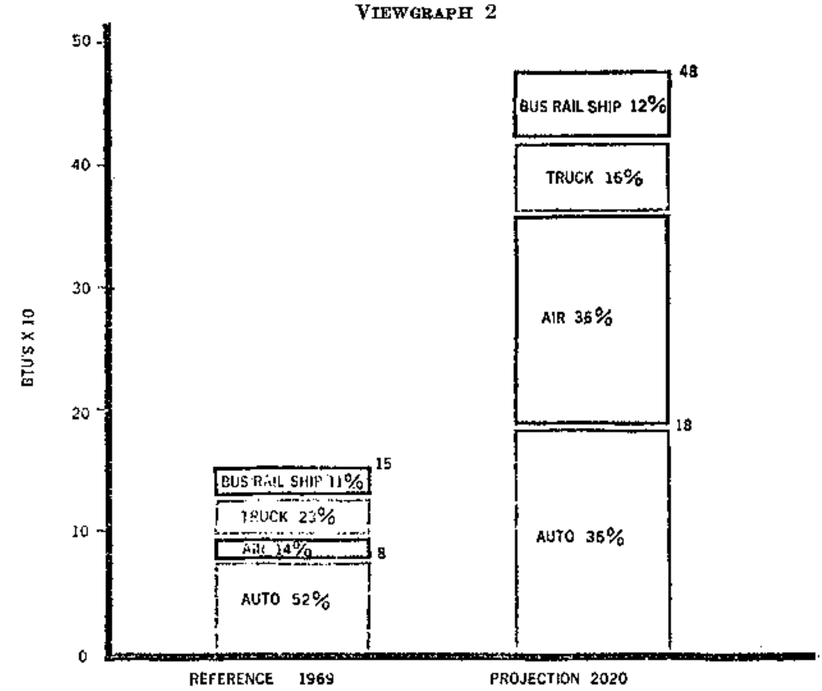
Thank you.

VIEWGRAPH 1



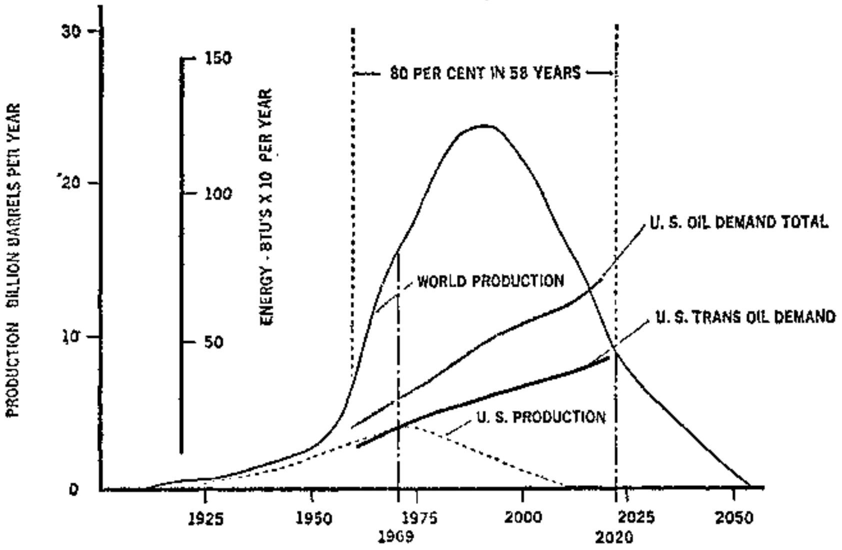
U.S. ENERGY - END USE

VIEWGRAPH 2



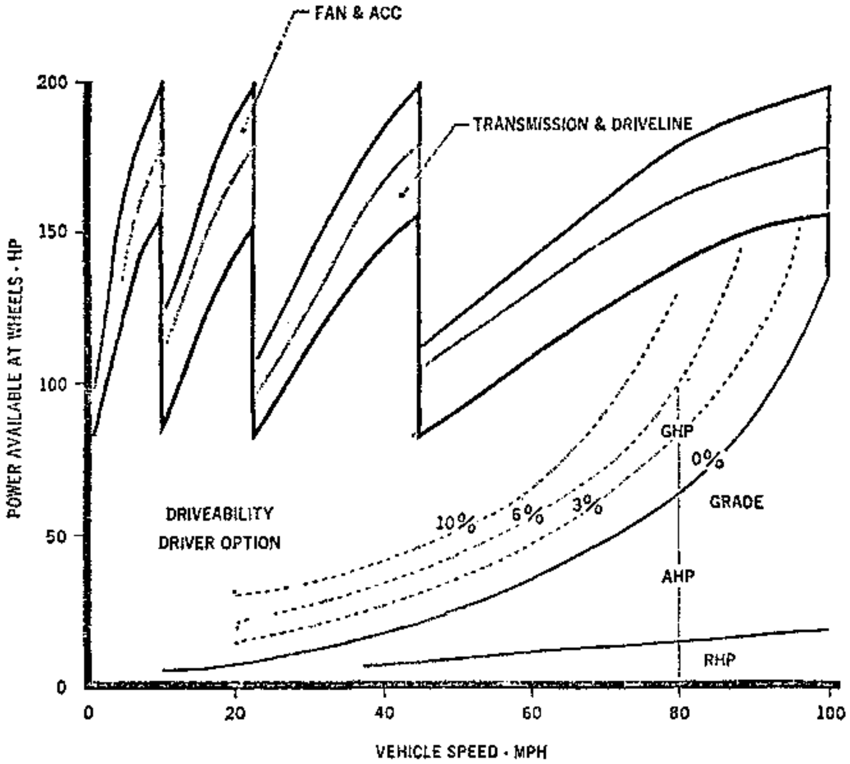
U.S. TRANSPORTATION ENERGY DEMAND ON OIL

VIEWGRAPH 3



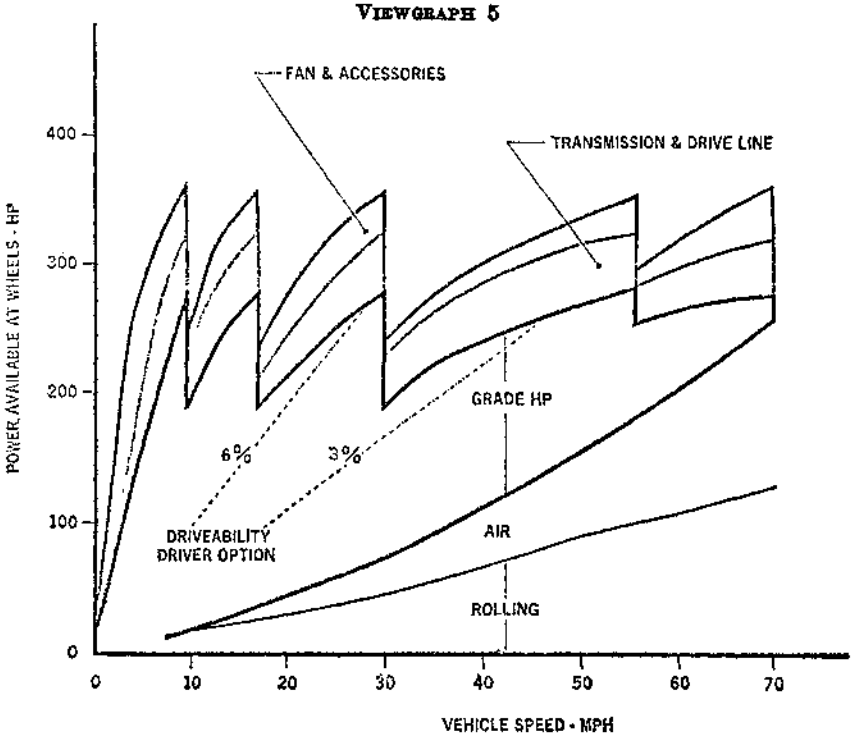
OIL MARKET

VIEWGRAPH 4



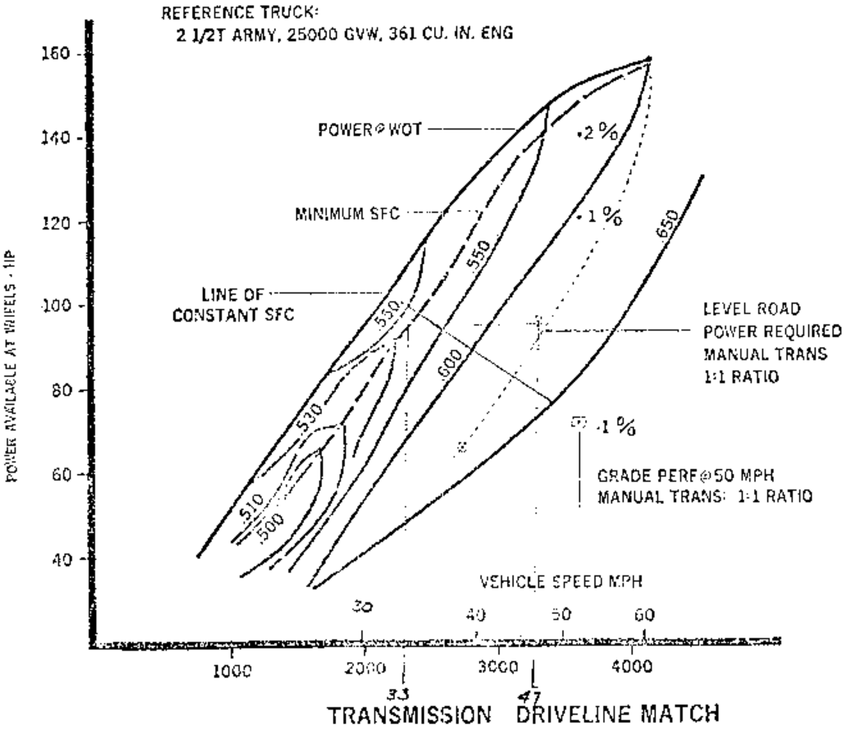
"REFERENCE AUTO" POWER - SPEED MAP

VIEWGRAPH 5



"REFERENCE TRUCK" POWER - SPEED MAP

VIEWGRAPH 6



VIEWGRAPH 7

Raw List of Topics for Further Examination

		Benefit (percent)
1.	Load factor	10–15
2.	Relief from planned emissions controls	20–25
3.	Liquefied gas fuels	-----
4.	Small car	30
5.	Lean fuel/air engines	20
6.	Extend analysis of highway—vehicle—passenger systems	35–85
7.	Small base engine with boost	15
8.	Reduce aerodynamics drag	5
9.	Tire design to conserve energy	10
10.	Fuel—engine match	unknown
11.	Idle shutoff	unknown

VIEWGRAPH 8

Topics by Categories Based on Application

A. IMMEDIATE APPLICATION
1. Tire design.
2. Liquefied gas fuel.
3. Systems studies

B. EFFECTIVE IN NEW PRODUCTION
1. Load factor.
2. Relief from planned emissions controls.
3. Small car.
4. Lean fuel/air engine.
5. Small base engine with boost.
6. Reduced aero drag.
7. Fuel—Engine match—further study required.
8. Idle shut-off—further study required.

Viewgraph 9

Ranked List of A ("Now") Category

	Energy benefit (percent)
1. Systems studies	35–85
2. Tires	10
3. Liquefied gas fuels	negligible

Ranked List of B ("Later") Category

	Energy benefit (percent)
1. Small car	30
2. Relief from planned emissions controls	20–25
3. Lean fuel/air engine	20
4. Small base engine with boost	15
5. Load factor	10–15
6. Aerodynamic drag	5

Viewgraph 10

PRODUCTION READINESS EXPECTATION OF RANKED B ("LATER") CATEGORY

	0 to 5 years	5 to 10 years
1. Small car	Yes	Yes.
2. Relief from planned emissions controls	Yes	Yes.
3. Lean fuel/air engine	No	Yes.
4. Small-base engine	Yes	Yes.
5. Loan factor	Yes	Yes.
6. Aero drag	Yes	Yes.

Viewgraph 11

CHANGES OF INITIAL COST TO CONSUMER

	More		Less	
	High	Low	High	Low
1. Small car			X	
2. Relief from planned emissions controls			X	
3. Lean fuel/air engine	X			
4. Small-base engine		X		
5. Loan factor		X		
6. Aero drag		(1)		

[1] Negligible.

Viewgraph 12

Adjusted Ranking Based on Elemental Cost—Benefit Consideration

	Energy benefit (percent)
1. Small car	30
2. Relief from planned emissions controls	20–25
3. Load factor	10–15
4. Small base engine with boost	15
5. Lean air/fuel engine	20
6. Aerodynamic drag	5

NOTE.—Primarily cost, but to some extent time of production readiness were considerations in displacing lean air/fuel engine from 3 to 5 position. Also simplicity and early availability, and absence of fuel octane increase considerations were reasons for load factor to precede small base engine in final ranking.

VIEWGRAPH 13.—CONCLUSIONS

1. Technology is available to apply to the car and truck to save energy in the future.

2. A realistic cumulative potential energy savings is 30%.

3. Preoccupation with achievement of regulatory requirements, in particular, the 1976 levels of emissions controls are heading for energy extravagant solutions with fuel penalty of 20–25%.

4. Technology is available to offset this 20–25% penalty by application of resources toward production readiness of the energy savings technologies. Energy consumption could be held status quo even though emissions cost would be 20–25%.

5. Energy conservative changes will result in higher initial cost to consumer even though life costs most likely will be less.

6. Faced with the cumulative regulatory effect on initial cost by emissions control, damage limiting design, and safety, the consumer is not likely to be receptive to additional cost for energy conservation.

7. Although "free enterprise" application of energy saving changes is considered best, it is unlikely to happen in the current economic environment.

8. Motivation (consumer pressure) is the key to rapid progress to achieve energy conservative measures for which technology is available.

9. Means to activate energy conservative measures should be addressed encompassing the whole spectrum of alternatives including socioeconomic, regulatory, legislative as well as the limited consideration of technological leverage.

10. In any event the largest contribution to save fuel in the earliest time frame would be the introduction of a tire with reduced rolling resistance which, in turn, could lead conservatively to a 10% reduction of fuel consumed.

VIEWGRAPH 14.—RECOMMENDATIONS

1. That available tire design information and experimental data be re-examined to verify the expected reduction in fuel consumption of at least 10%, and that a knowledgeable study group, involving at least Government and car, truck and tire industries, be assembled to address means to accelerate availability of such improved tires.

2. That factual information be made available to the consumer through various educational media, concerning conservation of energy and individual consumer operating expenses for cars and trucks which could be expected from alternatives such as those discussed in this report.

3. That Government agencies and automotive and truck companies re-optimize their vehicle design alternatives and identify energy conservative vehicles which could be made available to respond to the expected consumer demand. (Consumer demand is expected to be triggered by increasing cost of energy.)

4. That the proper Government agencies examine regulatory or taxation alternatives on energy use to accelerate an earlier stabilization of the energy market.

5. That middle time-frame highway vehicle planning use the assumption that natural or synthetic petroelum will be the abundant fuel through about 1985.

6. That fuel cost growth expectation by 1985 be assumed at 2.0×1970 cost to accelerate earlier stabilization of the energy consumption in highway vehicles.

7. That the Government should sponsor an R&D Program to identify more clearly engine concepts for highway vehicles with a tolerance to operate on the promising alternate fuels being addressed by the energy industries. (Such a basic study would provide centralized visibility and insight to improve structure of longer range engine R&D plans and programs to optimize utilization of limited dollar and talent resources.)

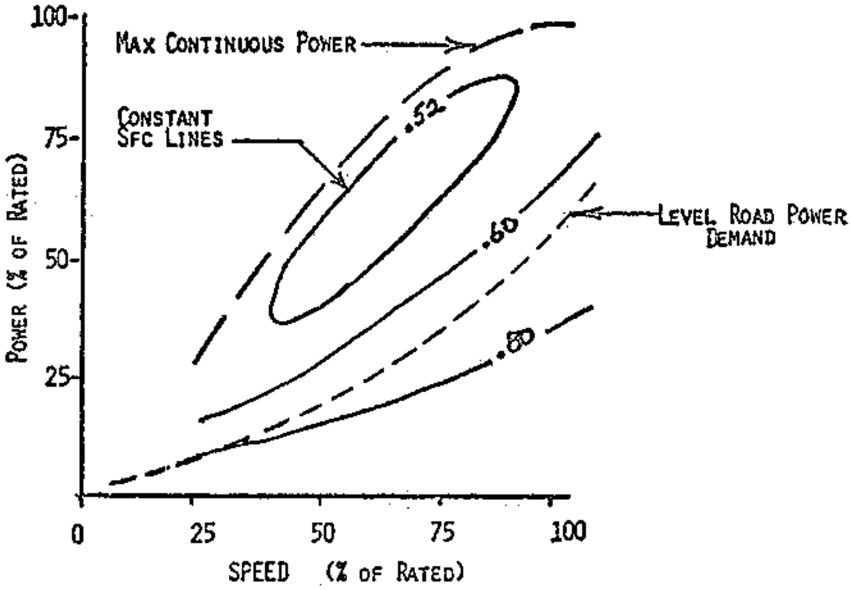
VIEWGRAPH 15

Engine selection—Contribution to fuel savcings

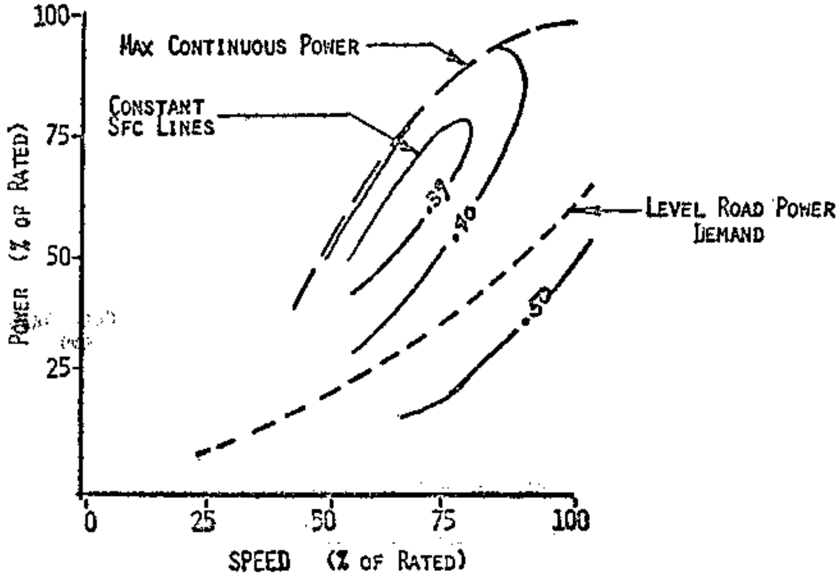
Engine type:	*Miles per gallon* [1]
Diesel (lightweight)	21
Stratified charge	15–17
Brayton (adv gas turbine)	13–15
Precontrolled otto	14
Rotary otto (wankel)	10–11
Controlled otto	10

[1] MPG, normalized to a family sedan weighing 4,300 pounds on the 1975/76 driving cycle.

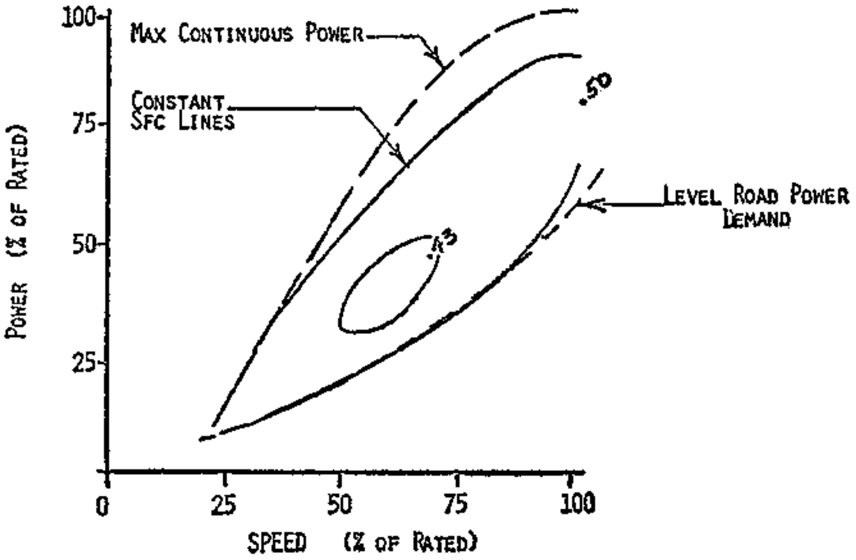
NOTE.—6 backup illustrations regarding viewgraph 15 follow:



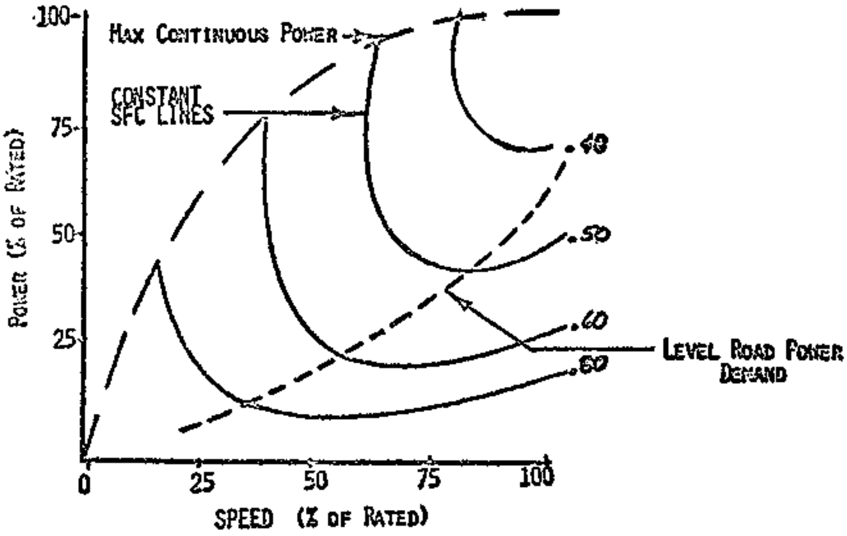
GASOLINE ENGINE PART LOAD PERFORMANCE



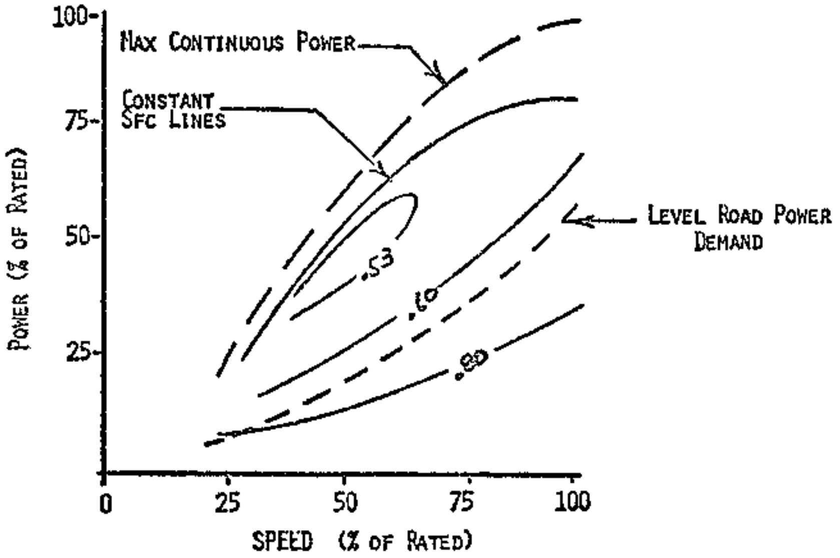
DIESEL ENGINE PART LOAD PERFORMANCE



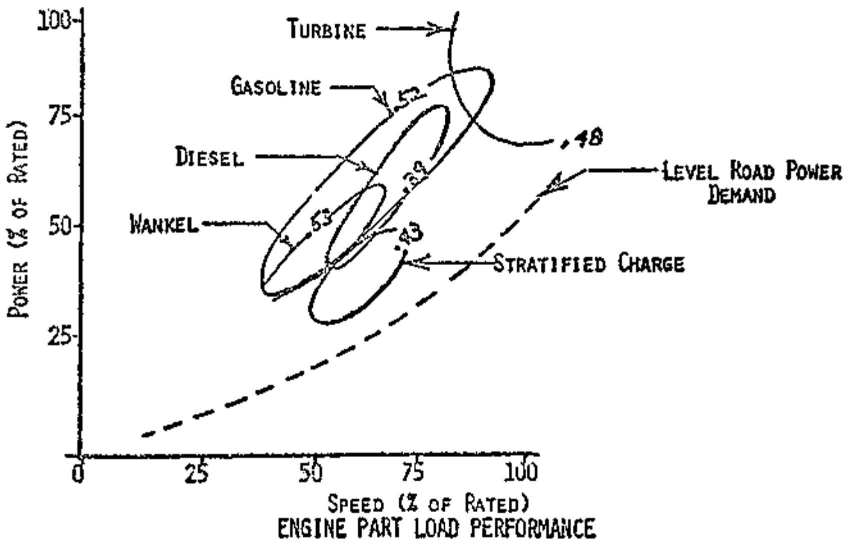
HYBRID ENGINE PART LOAD PERFORMANCE



TURBINE ENGINE PART LOAD PERFORMANCE



WANKEL ENGINE PART LOAD PERFORMANCE



ENGINE PART LOAD PERFORMANCE

(Best Island at Constant SFC)

Chairman HUMPHREY. First of all, Mr. Anderson, we do want to thank you, particularly because the information that you have given to us here for purposes of this subcommittee is based upon considerable research and apparently has scientific evidence to support it.

It appears that—well, one interim solution that has been suggested for the shortage of gasoline would be for the automobile manufacturers to make standard on automobiles an economy rear axle ratio which is now offered as an option. What do you think about that?

Mr. ANDERSON. That is a good alternative. It is one of the alternatives the group addressed. It is under a generic title of engine load factor or the matching of the engine to the need of the vehicle on the road. A two-speed axle is one way to do it. Perhaps an example most people will remember is the overdrive option that was with us in the mid-1950's; I think Borg-Warner might have been the only manufacturer. It was commonly called the Borg-Warner overdrive.

Chairman HUMPHREY. Yes.

Mr. ANDERSON. It is an excellent alternative.

Chairman HUMPHREY. Does it give good performance—I mean in terms of car control?

Mr. ANDERSON. Yes; there was complete control. There was nothing that was unsafe. But on the other hand, as you optimize your transmission, you are getting more transmission, and the whole scheme is to go to a smaller engine as you suggested in your opening statement.

Chairman HUMPHREY. Yes.

Mr. ANDERSON. Then you go to a bigger and more complex transmission. Every time you do that, although it is optimized for economy, it can be abused by the driver's intent on abusing it, because he has more selection of speeds and more control and he can use every feature that was designed to save fuel for hot rodding and very high usage of fuel.

Chairman HUMPHREY. Yes.

You indicate that the technology is available to offset the 20- to 25-percent fuel penalty being paid for emission controls. Would you clarify again just what innovations you have in mind and what order of priority you would introduce them in?

Mr. ANDERSON. The order of priority would be based on what we could do first, which would be the tire and the load match, including a reoptimization of the drive line. Then right at the end of that 5-year period, and maybe out into the 5- to 10-year period, would be the trend toward the "lean air-fuel" engine, which is a generic name our group assigned. This includes a "stratified charge" engine and diesel in the same generic category. This engine has been sponsored by my home base within the Army, for their own purposes. It is this type of engine that first passed the public test and disclosure requirements for new 1975–76 vehicles, requirements that the President referred to about 2 years ago.

Chairman HUMPHREY. You seem to indicate that the lightweight diesel engine is one of the better answers to conservation of fuel. Is this engine now at a stage of development at which the Federal Government should try to encourage its earlier adoption or production?

Mr. ANDERSON. No, sir, this engine does not exist today. It is a combination of existing technologies.

Much of the technology was in fact sponsored by the Army for their purposes for the lightweight diesel, but it was in the higher power range. What needs to be done is take that technology, that type of technology, and scale it to the size for the passenger car and in accordance with passenger car engine mass production practices, using major development programs, sir.

Chairman HUMPHREY. Yes, sir. Just how rapidly can we convert our automobile stock to these easy rolling steel-belted radial tires and how many can we make, let us say, by 1975?

Mr. ANDERSON. I am not expert in the production capacity of the tire industry. The only major car company that has announced their intention to have all new car production include the steel-belted radial has been Ford and they are announcing that their expectation is in the 1975 to 1976 time frame. I do not know it exactly. The tire industry is working very hard to change over their production base, but it is limited. But as far as the individual car is concerned, there are certain supplies available and you can enjoy the benefit of the 10-percent savings as quick as you can change the set of tires on your car, sir.

Chairman HUMPHREY. Very good.

Mr. Anderson, we had a chance to review your prepared documentation and I want to compliment you on it. Why have these readily available ideals for fuel economy which you have presented, why have they not been more enthusiastically adopted by the auto industry?

I said here a while ago, you may recall, to the petroleum people, I said, do you people not talk to each other? Is there not any communication?

Mr. ANDERSON. I do not know. I have an opinion. I think it relates to what happened to the Borg-Warner overdrive. I would answer the question with what happened to the hydramatic transmission of the early 1940's. Apparently, you and I as buyer convinced the seller that he ought to make a little more sophisticated machine that would be smoother, would have less noise associated with it, and I as driver would have to do less. They just lost, they were lost in the marketplace. They did not sell.

In the years of the available and cheap gasoline, it was less expensive to make the big engine and the little transmission, and it was smoother and it was a quieter sort or set of power machinery and the buyer was well satisfied.

Chairman HUMPHREY. I remember talking to one of the leading automobile distributors in the Midwest and I remember this gentleman saying to me with a kind of sadness and anger at the same time, he said, "You know, the designers and the engineers, they never talk to those of us who sell the car. They just make it and say, this is it, and go sell it."

Now, maybe that is an exaggerated statement, but the man who told me is a man who has been in business for over 50 years and one of the largest distributors of a General Motors products in the Midwest. He is an honorable man. And I met with some of his people. I could not quite believe that and he said, this is literally true. He said the engineers—you ask questions, why did they put this in there. First of all, it turns out that something is not safe and that the customer really does not like it and that the retailer has to go and explain it and try to make it look better than it is and the average fellow who can come in out of the rain knows it just is not what he really ought to have. So you ask the simple question, why did this happen?

He will say very honestly, well, nobody ever asked us. The engineering industry and the automobile industry apparently is done by people who are like artists. They are moody. They like to take a look at what they like, rather than what the public may indicate that it wants.

Mr. ANDERSON. I am in no position to speak to that.

Chairman HUMPHREY. It is sort of like women's shoes, you know.

Mr. ANDERSON. As I say, I am in no position to speak for the industry, but on the other hand, I do work with them on a daily and weekly basis and I can assure you that they are sensitized to the buyer's and driver's needs.

Chairman HUMPHREY. When they put that fender on there that stabbed everybody—do you remember a few years ago? I mean it was a spear. My God, it was a threat to life and limb and property, that big "pizzazz" that came out in the back, that flash fender. Now, whoever thought that one up?

Mr. ANDERSON. I think perhaps I am falling into the vernacular here. I call that man a styler or a designer, and the engineers and the stylists never have gotten along, and I am not so sure they will, Mr. Chairman.

Chairman HUMPHREY. OK. Well, listen, we are going to let you go. I have a visit with the Chancellor of the Federal Republic of Germany in another building, and I had better get there.

In the meantime, on behalf of the subcommittee and the committee, I want to thank you for the time you have taken in the preparation of your testimony and for the material that you have given to us, which will be very helpful in the writing of our observations and report. Thank you very much.

Mr. ANDERSON. Thank you.

Chairman HUMPHREY. The subcommittee is recessed until tomorrow at 1 p.m.

[Whereupon, at 4:30 p.m., the subcommittee recessed, to reconvene at 1 p.m., Wednesday, May 2, 1973.]

THE GASOLINE AND FUEL OIL SHORTAGE

WEDNESDAY, MAY 2, 1973

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON CONSUMER ECONOMICS
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 1:20 p.m., in room S–407, the Capitol Building, Hon. Hubert H. Humphrey (chairman of the subcommittee) presiding.

Present: Senators Humphrey and Ribicoff; and Representative Carey.

Also present: Loughlin F. McHugh, senior economist; William A. Cox, Jerry J. Jasinowski, John R. Karlik, L. Douglas Lee, and Courtenay M. Slater, professional staff members; Michael J. Runde, administrative assistant; and Walter B. Laessig, minority counsel.

OPENING STATEMENT OF CHAIRMAN HUMPHREY

Chairman HUMPHREY. We will proceed, and I am sure that you know, Mr. Secretary, that we have a vote today on a couple of things, as well as a conference, and our schedule for the day has been chopped up without any way to do much about it.

I want to welcome you to the subcommittee and thank you for your cooperation.

Yesterday we heard testimony from an integrated oil company—Texaco—two independent gasoline dealers, and the director of Minnesota Civil Defense, who is trying to prevent fuel shortages in Minnesota from becoming a full-scale disaster. We also heard from an expert on automotive fuel economy.

Their testimony and other available estimates indicate that there will be a gasoline shortage this summer of between 2 and 5 percent nationwide, and 10 percent or more in certain hard-hit areas like the upper Midwest. Supplies to independent dealers, however, are down already by an average of 25 percent, with complete shutdowns in some places, and they presumably will deteriorate further unless something is done to prevent it.

This shortage derives from a tight supply of crude oil and from a shortage of refinery capacity. It is expected to worsen somewhat through at least 1975 or 1976, and will continue to be felt for at least 5 to 7 years. Present indications are that it could be resolved toward the end of this decade, provided that new crude supplies are developed and that transport and refining facilities are expanded vigorously during this time, but this may not be easily accomplished.

Company spokesmen, including the independent dealer, stated yesterday that prices of gasoline would have to rise by from 5 to 10 cents per gallon in the near future to cover the cost of importing supplies from Europe, where the price is presently very high. An outside report suggests, however, that it would be more economical to turn up gasoline output at domestic refineries as much as possible at the expense of heating oil and diesel fuel production, and to import these latter products of which there is a more elastic supply abroad. The most hopeful testimony heard yesterday was that on possibilities for improved automobile fuel economy. The witness stated that the changeover to steel-belted radial tires would save about 10 percent on gasoline consumption, and that inclusion of a now optional economy year axle ratio as standard equipment on automobiles might save another 10 percent within several years.

Today we have the pleasure of hearing the administration's viewpoint on this situation, from Mr. William Simon, Chairman of the administration's Oil Policy Committee. I hope that Mr. Simon will expand considerably on the statement on energy issued by the President on April 18. Although that statement contains numerous proposals worthy of consideration by way of longrun measures to resolve this situation, it contains nothing on ways to deal with the immediate crisis of this summer and next winter. Mr. Simon, I hope that either in your statement or subsequently, you will address the question of how to assure adequate fuel supplies to areas from which commercial suppliers are withdrawing, as some have done in my State.

I have just left a meeting of Senators from all of the Midwestern States, and the situation in States like Illinois, Iowa, Missouri, and Wisconsin is not only difficult but is approaching crisis proportions.

One hour ago—in fact, 12:30 today—I was on the telephone with the Skelly Co. We already have had notification in the State of Minnesota that—as of May 1, yesterday—that all propane for all industries is out. That means for our farmers, and may I say in the presence of my distinguished colleague from Connecticut, that, if we don't have propane in the Midwest for soybeans and corn, the prices of these products and their derivatives will go through the roof. That could happen from a 10- to 20-percent reduction in crop. We can't let it happen; and the danger is for this fall, it isn't 2 years from now. I am not worried about 1985. In the long run, we are all dead. In the meantime, we have some living to do, and the situation on natural gas and propane for agriculture is now of critical proportions; it is absolutely basic if we are going to have the food supply that we need; and for industry, of course, it is also critical.

On the gasoline shortage, again I had a report this morning from my home State. More stations are closing their doors. Senator Adlai Stevenson just spoke to me a few minutes ago and reminded me of the testimony he has taken in the State of Illinois, where hundreds of independent dealers are closing their doors, unable to serve their customers. It is to this I wish you would address yourself.

Senator Ribicoff, do you wish to make any remarks?

Senator RIBICOFF. Thank you, Mr. Chairman.

First, Mr. Chairman, I think we are fortunate in having with us Secretary William Simon who has major responsibilities in this field. When the creation of his Oil Policy Committee and related changes came before the Congress, it first came to my Subcommittee on Executive Reorganization. At that hearing, Mr. Simon made some promises, and to my knowledge he has carried them out. I told him then that I thought he had one of the toughest jobs in this country, and I wished him luck. I still wish him luck.

Mr. Chairman, we have to vote at 2 o'clock, and there is a long prepared statement. I am wondering if the statement couldn't go in the hearing record. I have two specific questions affecting fuel shortages in Connecticut, as you have in Minnesota, and I wouldn't like the hour of 2 to go by without having the opportunity to ask these two questions.

Chairman HUMPHREY. We will, of course, incorporate the full text of your prepared statement in the record, and I am confident that in your questions you will be able to give us good senatorial answers in which you address yourself to the question and toss in a little something else from your statement in terms of summary.

TESTIMONY OF HON. WILLIAM E. SIMON, DEPUTY SECRETARY OF THE TREASURY AND CHAIRMAN OF THE OIL POLICY COMMITTEE, ACCOMPANIED BY DUKE LIGON, HERBERT ASHMAN, AND WILLIAM JOHNSON

Mr. SIMON. I will try to be as responsive as I can. I apologize profusely at the outset for not having had this prepared statement here hours ago. I have testified or have to testify 4 days this week on four different subjects. I try to do these things personally. I have had the help of some very qualified people in the preparation process, and I hope you get a chance to read it.

Chairman HUMPHREY. Thank you. The staff, I am happy to tell you, has gone through the prepared statement rather quickly, and we will be able to be relevant and direct our remarks accordingly.

Senator, why don't you proceed?

Senator RIBICOFF. Just by coincidence, similar to Senator Humphrey's this morning, I had a visit from an independent fuel oil company and a letter from an independent gasoline station operator. Let me read you a memorandum of one situation, and I would like your comment and help.

The Lehigh Petroleum Co. is an independent oil dealer in Norwich, Conn. For 37 years, it bought all of its home heating supplies from Esso. In 1971, Lehigh could not meet the summer fill requirements Esso demanded—that was to make 35 percent of its purchases in the summertime, because of lack of adequate terminal facilities. So Lehigh had to seek other sources for No. 2 heating oil. Wyatt, a major independent terminal operator, and Texaco sought out this new business and assured Lehigh of doing business for many years to come. Texaco, on April 26, 1973, said they would sell Lehigh no more supplies for the 1973–74 heating season, and that Lehigh should go back to their historical supplier, Esso, now Exxon. But Exxon says it has no obligation to supply Lehigh, and Wyatt, as an independent, will have its own problems since Wyatt buys from Exxon. Now, Lehigh supplies 70 percent of the homes in the Norwich area, about 8,000 customers, including hospitals, convalescent homes, schools, and the Municipal Electric Power Co. in Norwich. Without Lehigh supplying this oil, this entire community will come to a grinding halt. The people, the hospitals, and the schools won't be able to heat their homes and have electricity this coming winter.

Now, what can we do for the people of Norwich, Conn.?

Mr. SIMON. Well, if I may, Senator, please, have a copy of that letter. I will respond to you after I have had an opportunity to talk to Exxon and Texaco to get a full story. Let's see if we can't make sure that those supplies aren't cut off.

Senator RIBICOFF. Don't you believe that the major oil companies do have a responsibility to supply the needs of local communities throughout the Nation, who have historically been principally supplied by the independents in their own hometown?

Mr. SIMON. I most certainly do.

Senator RIBICOFF. Can I expect the active help of your office with the majors like Texaco and Exxon, to see that between them they work out a supply formula so Norwich will not be deprived of their fuel needs this coming winter?

Mr. SIMON. I will promise I will do the absolute best I can and do it immediately. I'll call you back within a day.

Senator RIBICOFF. That would be just great, and I appreciate it.

I have another letter here from a Mr. Raymond Hill. It came in to my office today from the Hill Oil Co. of Kensington, Conn. He points out that he has been an independent marketer for many years. He has had to close 12 stations and lay off 45 persons from work. His volume has been cut by 50 percent. He isn't receiving his normal share of gasoline. What can we do for a small business like the Hill Oil Co. of Kensington?

Mr. SIMON. You have a big problem with the independent segment, Senator and Mr. Chairman, as you well know. The independent segment of the petroleum industry grew at a time when there was great oversupply. At that time, they could receive ample supplies from the integrated companies and the independent refiners. Now the situation has changed completely. We now have a worldwide shortage of sweet crude. The supply of gasoline available at the market is dried up. Unfortunately, literally thousands of gasoline stations were built on this oversupply. These independents used to go out and make spot purchases at the cheapest price possible. They provided a very useful competitive force in this industry, but they relied on the oversupply. Being on the margin, economically speaking, as they are, they would be the first to go during a period of shortage, which we have right at the present.

What are we doing about it? I think that that was probably the thorniest issue that we faced in the readjustment and change in the oil import policy, because of the problems that I have just outlined. The new policy creates a small value to the oil import tickets where heretofore there was no value. Small refiners receive license-fee free allocations based on the 1973 levels established. A system called a "sliding scale" gives them more proportionately, as you are familiar with, than a major oil company gets.

The Oil Import Appeals Board is probably our most purposeful weapon right at this point.

By way of background, the Oil Import Appeals Board used to receive a small kitty of tickets from the Oil Policy Committee in January of each year. This was the old annual allocation system that probably helped get us into a lot of these problems we have right now. The board would then receive hardship pleas from the various sectors of the country and the various components of the industry and by September or October they would allocate the small supply they had to meet a portion of these requests. This really seemed to us was closing the barn door after the horses were out.

In January of this year we changed that. The Oil Import Appeals Board in 3 weeks granted their full year's supply. Then in March the President signed a proclamation allowing the Oil Import Appeals Board, under my direction, an unlimited amount of tickets for hardship cases. Now, this is purely for the independent sector of the market. These are license fee free tickets which gives the independent component the ability to make long term contracts and long term shipping contracts. They are going to have to learn over the next few years, and hopefully faster than that, to go out and get their product from different sources. Since the change in the program, we have had several phone calls. People are going to start refineries and start independent world purchases. They are going to go out as entrepreneur types because the domestic supply is unfortunately not available to this independent area.

We also have available royalty oil which comes from oil leases on Federal lands. We are presently issuing 60,000 barrels a day of royalty oil to the independent sector. We are going to issue an additional 80,000 to 100,000, which is all we have, to this sector.

I have set up six committees, which Senator Ribicoff is aware of, representing the five districts of this country, and the critical Northeast area, not that all areas aren't critical, but they have special problems, let's say. We have been meeting with them and next week we are meeting again with each of the six committees to define the specific problems in their area in an attempt to be as responsive as we can and begin to move on the distribution. The distribution system in this country is inadequate to meet the problem and, Mr. Chairman, that is one of the problems we have got in your area of the country.

We are also studying possible ways of getting States to temporarily relax the high sulphur regulations, and that is New Jersey, New York, and Pennsylvania. Now, these refineries can refine sour crude but they are refining only sweet because of these restrictions. If we could relax these regulations we could free up enough sweet crude to take care of many if not all of the present shortage problems. We are dealing now with State regulations. All we can do is suggest. Whether it will be done or not I don't know, but I think, Senator Ribicoff, you could be helpful in that area.

Senator RIBICOFF. Thank you. And may I say to you, Mr. Chairman, I believe that you showed a great deal of statesmanship in introducing your S.J. Res. 98 to set up an emergency Fuels Allocation Board. I would like the privilege of being a cosponsor with you on that resolution.

Mr. SIMON. Don't misunderstand me, this is no panacea. We are touching all the bases. I have no home runs to hit.

Chairman HUMPHREY. The energy bill—the Emergency Petroleum Allocation Act, bill S. 1570—is up next week and we hope that we might bring S.J. Res. 98 up as an amendment. I will work with you on that, Senator Ribicoff.

Senator RIBICOFF. Thank you, very much, Mr. Chairman.

Chairman HUMPHREY. I have a few questions here and I gather the questions will lead into your prepared statement, too. I glanced hastily through what you say about the independents, Mr. Simon, and I want to come back to that, if I may, because it, of course, is of great concern to us.

You say in the beginning there is a general feeling amongst a number of independents that they are in a squeeze, so to speak, where they are being eliminated by the majors.

As I said, I just left a meeting of a number of Senators, all of whom believe that the Justice Department should activate itself and take a strong position on examining possible violations of the antitrust laws.

Now, I have no way to know whether this is based upon sufficient evidence or fact, but we have had testimony that is very disturbing, and Senators who have been in their home States talking with distributors and wholesalers as well as with small refiners and retailers are pretty much of the opinion that the majors are putting the pressure on to eliminate competition while at the same time opening up new stations of their own. I think this is a matter which surely ought to be looked into by the Justice Department and the Federal Trade Commission. I would hope so even in the instance of your own office.

You state in your prepared statement that you would not hesitate to use petroleum rationing or allocation authority if the country faced major hardships because of gasoline shortages.

Could you elaborate on this statement?

Mr. SIMON. Well, yesterday we received through the Eagleton Amendment allocatiton authority. Under this the President has power to designate a person or people in the Government to handle allocation of fuel supplies. This was brought up at this morning's meeting of the Council on Economic Policy. It will be done by the end of the week. We have not only to define where the responsibility will be and who will implement the allocation, what department, but also to work on the guidelines which are extremely difficult, as you can imagine. We must identify the supply. Even more critical than identifying the supply is how you get it where it's needed. We don't want to move shortages from one side of the country to the other. All of these have to be identified and identified very quickly.

Chairman HUMPHREY. We would hope to help you legislatively on that by establishing a base period from which you would operate and by taking into consideratiton allocation by State or region and also the problem of supply availability, which we recognize is related to price.

Do you believe in the share-the-shortage concept and would the Federal Government accept this as a standard of rationing and allocation; particularly, would you expect the major refineries to cut back independents only to the extent that such majors cut back deliveries and sales through their own marketing outlets?

Mr. SIMON. Well, I think the majors have already demonstrated to us that they just don't have as much as they used to. Maybe they could be doing a lot better and sacrificing themselves at the same time while making other people sacrifice, and I am in the process, when I finish testifying this week, of speaking to each one of them personally. I will be talking to the chief executive officer of each company, and explaining this responsibility I believe he has, which you expressed a few minutes ago, in this very critical time.

Chairman HUMPHREY. Let's say that there is a 3- or 5-percent shortfall, or whatever the figure may be. There is a lack of definite information on this. The point of my question is that the majors are letting most of that shortfall fall on their independent outlets and are taking care of the requirements of their own company-owned outlets.

If you have an allocation program, would you be of the mind that the allocation ought to be on an equitable basis; in other words, if a company is going to have to cut back, that it cut back equally across the board to its own outlets on the same basis that it does to independents or vice versa?

Mr. SIMON. We must make sure that one small component of the petroleum industry doesn't bear the brunt of this shortage. I believe that would answer your question. We are studying the method of allocation right now.

Chairman HUMPHREY. So we can expect a policy decision on that matter very shortly?

Mr. SIMON. Certainly, It is No. 1 on the agenda.

Chairman HUMPHREY. What length of time do you think is going to be required to arrive at some kind of decision on that?

Mr. SIMON. I have only been in Washington for 5 months. When people used to ask me that a few months ago, I would say I would have it done next week or by tomorrow. I have learned the hard way it doesn't work that way.

Chairman HUMPHREY. Would you like to give us a "guesstimate"?

Mr. SIMON. I would hope within a week.

Senator RIBICOFF. I hope that doesn't apply with Lehigh, Exxon, and Texaco.

Mr. SIMON. That I have direct control over, as far as dialing the telephone is concerned.

Senator RIBICOFF. Thank you.

Chairman HUMPHREY. I thought we might go through part of your prepared statement as it relates to the independents. You listed some of the efforts that are being made to answer the problems of the independent oil companies, and you say as follows: "Perhaps the major benefit of the new program is the flexibility that it provides to importers."

Are you talking about importers of crude or importers of refined products?

Mr. SIMON. Well, both.

Chairman HUMPHREY. Both?

Mr. SIMON. Yes, sir. Heretofore under the old mandatory oil import policy it was a quota system. Each year the Government sat down at the beginning of the year and estimated what we would need. Like all estimates and forecasts, they are dangerous and they were usually wrong. Then it would be adjusted on a month-to-month basis. This lack of stability in a program is one of the reasons, just one of them, that we don't have new refineries constructed in this country. We didn't give the industry the ability to plan. Now we have removed all volumemetric quotas. We have in effect, freezed free allocations at the 1973 allocation level. We removed the old $10\frac{1}{2}$-cent and 52-cent tariffs. Then we issued license fees in the same general scale but going up gradually to 21 cents and 63 cents 2½ years from now. We are in effect bringing in a great deal of tariff-free oil and gasoline this year which should be a boon to the independents, assuming they can find that much. They will have problems, of course, because gasoline is difficult to find overseas.

You speak of the potential fuel oil problem next winter. Well, the fuel oil distillate inventories today are higher than last year. That is good, because that means the refineries can turn their screws, so to speak, and produce gasoline not only to a greater percentage than before but for a longer period of time.

Chairman HUMPHREY. If this is true, then why when I met with the county officials—I met with the executive director of the National Council of County Governments last night—why are they unable to get contracts for fuel oil? My home State of Minnesota is unable, the State government, to get a contract beyond 30 days for fuel oil. If we have got distillate, then what are these companies doing with it?

Mr. SIMON. I am telling you these are the programs we put in place only in the last 2 weeks and——

Chairman HUMPHREY. But I am talking about the Director of our Civil Defense, who was here yesterday afternoon, and we absolutely cannot, our school districts have not been able to get contracts for fuel oil, and we have got to have fuel oil. The University of Minnesota is unable to get contracts for fuel oil.

Mr. SIMON. Has Interior done a study—is it the distribution study——

Mr. LIGON. I think probably there are two problems we are looking at. First of all, of course, is the level of supply.

Chairman HUMPHREY. Yes.

Mr. LIGON. This is what we are discussing. And then an entirely different problem is the distribution system and how to get it where it should be.

Chairman HUMPHREY. We never had any trouble about that before. We have got more trucks now and more roads than we had a year ago, and we don't have that much more population, that much more industry. The University has fewer students. I don't understand this.

Mr. LIGON. Mr. Chairman, your part of the country and all of the Midwest is an area that has been served traditionally by independent refiners.

Chairman HUMPHREY. Right.

Mr. LIGON. And for years and years these independent refineries have been supplied by crude oil that has been produced in that particular area. For the first time now, we have a situation of a short crude situation. These refineries have for years been able to supply through their distribution system the type of products you are talking about, the distillate and specifically the diesel oil——

Chairman HUMPHREY. Fuel oil No. 2.

Mr. LIGON. Yes, sir, to the farmers in the Midwest and so forth, these are the refineries in our country that are having problems today supplying that area simply because of the lack of supply of sweet crude oil that is available to them. The distribution system from the Gulf and other areas has not been placed so as to have a pipeline system going into that area to supply those refiners because they have never needed it in the past. This is the first time that these refineries on a wide scale basis in the Midwest have had real problems by not being able to receive this supply of crude oil. Herein lies the problems of the distribution or at least it certainly is responsible for a great deal of it at the present time.

Chairman HUMPHREY. Are we going to have to confess that our distribution system in this country is incapable of moving the normal amounts of distillate? We are not asking for excess, we can get along with what we had in 1971 and 1972. We feel that that is a reasonable base period. I am not just talking about diesel or No. 2 or kerosene but gasoline as well. All at once it hit us, although with the war winding down we obviously are not using as much jet fuel as we once used; with the temperatures we had last winter, which were very mild, we should have been able to pick up a little bit.

Mr. SIMON. I think one of the other main reasons is uncertainty in the industry. They have difficulty as far as signing of a contract of long duration. They are worried about being able to fulfill contracts right at this point.

Chairman HUMPHREY. I thought I understood you to say, Mr. Simon, there was a larger supply than usual of distillate.

Mr. SIMON. It is well within the normal range and larger than last year right at this point, according to our figures. I think it is a distribution problem. They are worried about what are they going to need next winter? They don't know, so they are not willing to make a long-term commitment on it.

Chairman HUMPHREY. Last year at this time we had no problem in the month of May of signing up contracts, I can assure you, and if there is a larger amount of distillates this year in 1973 than there was in May of 1972, I just don't think there ought to be any problem. Somebody ought to be looking into this. That is what the Government is for. You can't expect some of the school districts out there to take a look at it. Senator Ribicoff comes here with letters, and I have them and every other Senator has, every single one of us. Seventeen of us met here and we all have these same problems and I think there is something wrong.

Senator RIBICOFF. I think many experts in this field feel that there really isn't any crisis, but it is a situation that has been blown up by the majors to squeeze out the independents. This is what bothers Senators like the chairman and myself, whether there is any basis to this. This concerns me especially when you say that we have got a larger supply of distillates today than we had last year and no one was raising the problem last year.

Mr. SIMON. Most of your problem at this point is in the gasoline area, not in the distillate area.

Chairman HUMPHREY. They will not sign contracts for fuel oil and we have to sign those contracts now, Mr. Simon.

Mr. SIMON. Yes, sir.

Chairman HUMPHREY. We cannot afford to approach the fall and winter season in our parts of the country, or in Connecticut, or in any of the northern stretches of the country, without having some assured supply.

I just had a company with 600 employees come through today, May 2. We have one after another. This is one of the major little companies that, by the way, is producing in an industry vital for the Government itself, for the defense industries. Now, that was in propane. That doesn't relate, of course, to this particular problem.

Mr. SIMON. Bill Johnson wants to add something.

Mr. JOHNSON. I think that some clarification of what the higher stocks of No. 2 fuel oil mean, is in order.

The problem varies from one section of the country to another. For this reason, it is impossible to generalize about the fuel oil and gasoline or crude oil difficulties that the country faces at the present time. What Mr. Ligon was saying about the Midwest really does not apply to other parts of the country.

The problem in the Midwest, in Minnesota especially, is that this is an area that has traditionally been served by independent refineries. There does not exist a pipeline or distribution system to carry in the finished products from outside the region into the Midwest. The solution to the problem of the Midwest is to get the sweet crude oil, that is low sulfur crude oil, to the independent refiners of that area.

Chairman HUMPHREY. We were always able to get on by trading in the tickets.

Mr. JOHNSON. That is right, but it is not that easy now for several reasons. One is that many major refineries, particularly on the east coast of the United States, are presently being forced to consume sweet crude, which is in very scarce supply. They are forced to consume sweet crude, even though these refineries are designed to consume high sulfur crude oil, or sour crude. They have to do it because of their air quality standards that have been established and are being adhered to by the States in this region.

There are other factors that are at work also. The price of sweet crude, which tends to be the type of crude produced in the United States, has remained relatively stable, while the price of foreign sour crude oil has risen. This is because of several factors. The increased royalties demanded by the producing countries and two devaluations of the dollar have distorted price relationships. We have not allowed the price of sweet crude in the United States to rise as rapidly as it might, and if it were to rise, this would probably have the effect of helping to get the sweet crude to the independent refiners of Minnesota.

The price regulations have had an effect.

Chairman HUMPHREY. I don't want to make it appear it is just one State, because yesterday we had people from Wisconsin, the two Senators from Iowa with me this noon, and the Senator from Illinois, Mr. Stevenson. But I am obviously more familiar with the area that I represent. We heard yesterday, by the way, that the gasoline supplies overseas at Rotterdam, for example, bear prices about 5 cents a gallon higher than here and that by the time you got it into the United States, even without any distribution or marketing costs, it would be about 10 cents higher.

Mr. SIMON. That is a little bit high. The last delivery was 10 million gallons at 20 cents a gallon to be resold at 14.

Chairman HUMPHREY. I didn't get that.

Mr. SIMON. Paid 20 cents a gallon, which is about 6 cents over.

Chairman HUMPHREY. About 6 cents. By the time of distribution in the United States, by the time they put it in their distribution system, how much would you think this total cost would be to retailer?

Mr. SIMON. Well, these people sold it for competitive reasons. They sold this gas at the going rate at 14 or 15 cents.

Chairman HUMPHREY. How does that fit in to your price control program?

Mr. SIMON. Well——

Chairman HUMPHREY. We were told yesterday by the people that were in the business end of it that it just did not work; the price control program was keeping out these products.

Mr. SIMON. Well, I don't know that I could make that statement 100 percent. Obviously there is a problem with any controls. I am a free market man and could go on at some length about that and the distortions that are created and the inequities we are discussing today. I am sure that our economic stabilization program has its impact in this area, but I could not say it is completely at fault.

These companies have the power to raise prices within 1 percent of the weighted average basis, that is all of their commodities that——

Chairman HUMPHREY. All commodities?

Mr. SIMON. All of them, which gives them a lot of room. They can go up on a cost justified basis by 1½ percent.

Now, on August 15, 1971, when the freeze came on, fuel oil prices were at a——

Mr. LIGON. Gasoline prices were up.

Chairman HUMPHREY. August?

Mr. LIGON. As a result, using that base period, there are many companies who haven't even gotten to their base period, and as far as price is concerned, it has been a competitive factor that has kept the price down.

Now, if this man brought in 20-cent gasoline and wished to sell it at 20 cents or 21 cents or whatever the Cost of Living Council permits on an incremental basis, just washing it through, he would have to abide by the profit margin limitation. The profits are pretty good so they would prefer to maintain their flexibility in pricing other products and just sell this gasoline at the lower level. They are not going to do that too often and that is the place where I agree with you.

Chairman HUMPHREY. Well, you know, this kind of economic gamesmanship, which I heard about yesterday also, doesn't add up to our immediate needs. We were told by a very big company and very responsible people yesterday that our effort to obtain the refined product from overseas refineries would be of little consequence because of price factors. What you are saying is that——

Mr. SIMON. They don't make this much gasoline over there. And in this country we literally produce all but 1 or 2 percent of what we consume in the gasoline area.

Chairman HUMPHREY [continuing]. Every little bit counts.

Mr. SIMON. You are darn right, and we are bringing in more than just a little bit.

Chairman HUMPHREY. Let me pin this down. Are you saying to me that it is your judgment under the Cost of Living Council formula that the importers of overseas refined petroleum products, gasoline in particular, that those importers can bring it in and still maintain a reasonable price structure within the price ceilings and make a good profit?

Mr. SIMON. Well, I couldn't answer that question because it would vary with the company. Some companies may prefer not to abide by the profit margin limitation. The deep water terminal operators in Senator Ribicoff's area would indeed have to pay more, yes, and that is probably one of the problems. The independent marketer of products in particular has always been able to sell a couple of pennies under the major and that is the rub. They cannot really sell at a competitive price at this point.

Chairman HUMPHREY. I wish we could get some simple answers that I could write to somebody and tell him what is going on.

Mr. SIMON. I am going to tell you. Mr. Chairman. I agree with you. This whole cost-of-living formula and everything is enough to boggle anybody's mind.

Chairman HUMPHREY. If somebody could just tell me what they can do and what they can't do and how we are going to get the supply. I can understand about refineries. I can understand if you don't have a pipeline. By the way, we are not completely devoid of pipeline in the Midwest; we have some coming up in Duluth-Superior, you know. But I can understand those problems. But I can't understand all of these shenanigans about profits and prices when I see that, as I read yesterday, the profits of these companies increased by 40 percent, 30 percent, one of them by 70 percent. They say they don't have any money. What a way to be poor.

Mr. JOHNSON. May I try to address the question of what the cost of Living Council rules say, although I can't say that I am an expert on these rules, nor do I understand their implications fully. They are very complex. But it is my understanding that an independent company that is forced to import gasoline, let us say, at a higher price has the ability and the right to pass through the higher cost of his imported gasoline to his customer. It is a legitimate cost increase.

Chairman HUMPHREY. That is my understanding.

Mr. JOHNSON. What is restricting the ability of the company to do this is, at the same time, there are 23 major oil companies in the United States who are subject to the regulations of the Cost of Living Council and, whether or not these regulations are as stringent as the major companies may perceive, at least they are keeping their prices in check because of these regulations. Let us suppose that we are talking about a terminal operator in New England who can buy abroad and legitimately charge a higher price. He is restricted from doing so because of competition in the market. He knows that his controlled domestic counterpart, who is selling controlled, domestically produced product, is going to be able to undersell him and indeed would be forced to undersell him under the terms of the price controls. That is where the rub is.

Chairman HUMPHREY. Are you men meeting with the cost-of-living experts over there so they get a little communication?

Mr. JOHNSON. Daily.

Mr. LIGON. We certainly are.

Chairman HUMPHREY. Are they slow learners?

Mr. JOHNSON. I am an economist, not an educator.

Chairman HUMPHREY. Maybe we had better crossbreed you.

I have another question for Mr. Simon. You mentioned today that the independent petroleum marketers could depend on fee-exempt import licenses from the Oil Import Appeals Board thereby giving them some competitive advantage.

Mr. SIMON. Yes, sir.

Chairman HUMPHREY. To see them through, you said, to see them through the worst of this squeeze.

Of course it's a maxim that many of these importer independents have very little experience with either importing or with the Board. As has been indicated, they have been buying most of their supply from the majors.

Today, however, the Federal Register announces a limit of 60,000 barrels per day overall on imports of petroleum licensed by the Board.

Did I understand you to say you are raising that?

Mr. JOHNSON. Yes; that has come to our attention and that is an error that will be corrected.

Chairman HUMPHREY. And what is the amount that they will be able to——

Mr. JOHNSON. The Oil Import Appeals Board, since March 23 of this year, has been authorized unlimited allocations for distribution to the independents.

Chairman HUMPHREY. That is what I understood.

Mr. SIMON. They will still be able to go through the swap mechanism with the major companies as the major companies use up their tickets.

Chairman HUMPHREY. These are old tickets?

Mr. SIMON. Even the new ones through the Oil Import Appeals Board. But as the majors use up their tickets that were allocated to them in January of 1973 they come to the Oil Import Appeals Board. Unless they have demonstrated that they have cleaned the market of the tickets of these independents on a swap, then they won't get it.

Chairman HUMPHREY. Now, I can bring you two independent refiners in the Minneapolis-St. Paul area that haven't been able to trade a ticket for months; no one will take the tickets; they are as useless as a $3 Confederate bill. They really are. Isn't that a true statement?

Mr. SIMON. They have been up until the new program, and as I say the new——

Chairman HUMPHREY. Maybe it was last week; I wasn't home since; has it changed since then?

Mr. SIMON. That is when it was announced in the President's energy message.

Chairman HUMPHREY. I was home after the President's energy message. Ashland Oil Co. You are familiar with Ashland Oil?

Mr. SIMON. Yes, sir.

Chairman HUMPHREY. Great Northern Refinery and Northwest Refinery out in the Twin City area. They haven't been able to trade.

Mr. JOHNSON. Under the old program prior to the 18th of April the independents had no value whatsoever to their import tickets. There was a time several years ago when tickets did have a value. It was based on a number of things. Most important was the fact that imported oil was cheaper than domestic oil and, for that reason, the major oil companies were willing to go to the independents and say we would like to exchange some of our domestically produced oil for your right to import oil, and this was a very good system for the independents.

The thing that has destroyed this system has not been the mandatory oil import program. It is, simply, the fact that the oil-producing countries have begun to charge more for their oil. We have also devalued the dollar twice and these factors, plus the fact that sweet crude, as I indicated earlier, is so much more valuable now and so much more essential in various parts of the country, all have had the effect of making the value of the independent's tickets fall to zero. That was the situation that existed on the 18th of last month.

Mr. SIMON. Virtually all the crude we bring in is sour crude from the Mideast.

Chairman HUMPHREY. I understand that.

Mr. SIMON. In talking to people like Ashland Oil, they tell me they are considering very seriously building a refinery and going out and contracting on a long-term basis to bring their own in.

Chairman HUMPHREY. But that is a 3- to 4-year program.

Mr. SIMON. Yes. This is no instant success. It can't be. We can't create a barrel of oil.

Senator RIBICOFF. As I listened to the colloquy between the chairman and you gentlemen I noticed you are against allocation. What alternative would there be other than allocations if we are going to get the proper distribution throughout the Nation, if you are going to make sure that the independents continue to exist, because the independents have absolutely no future and no way to turn in view of what has developed unless there is an allocation assuring these independents of their share of the market.

Mr. SIMON. The independents have two things. One, as I said, all volumemetric quotas were lifted so everybody can bring in whatever they want.

Chairman HUMPHREY. They can't refine it. It doesn't do any good to bring the crude in. The independent doesn't own the pipelines, they don't own the tankers.

Mr. SIMON. That is the combination of problems we spoke of before where on the east coast they are refining the sweet crude and it could free up 600,000 barrels a day if they could lift the restriction temporarily and be able to go back and burn sour again.

Chairman HUMPHREY. Well, that isn't going to happen, is it?

Mr. SIMON. Well, I don't know, Mr. Chairman, whether its going to happen, but we are going to certainly continue to go back at them and talk to them.

Chairman HUMPHREY. Is that EPA you are having to talk with?

Mr. SIMON. Yes, sir.

Mr. JOHNSON. I think there is a problem. First, I think it is a mistake to assume that we are against all forms of allocation. I wouldn't say that. I don't think Secretary Simon would. But, when you are talking about the allocation of sweet crude, if you take sweet crude away from the major refineries on the east coast and redistribute it to midcontinent refineries, then it is quite likely you are distributing the shortage to the major refineries on the east coast and that there is still not going to be much of an increase in utilization of refinery capacity. The problem is that sweet crude is in very scarce supply at the present time. It is going to take time to increase that supply and one of the things we can do, at least the States can do, to help release certain amounts of sweet crude from use, where they are not absolutely essential in the short run, is to relax the air quality standards. These standards are forcing eastern refineries to use sweet crude or nothing.

Mr. SIMON. On the east coast those refineries are presently producing only 24 percent of the demand. If you ship it out we are going to have problems. You will be moving the shortage from one area to the other unless they are allowed to use the alternative which is the sour crude.

Chairman HUMPHREY. Such a maze.

Mr. SIMON. Yes, sir.

Chairman HUMPHREY. Let me ask a simple question. Will the licenses continue to be unlimited?

Mr. SIMON. The Oil Import Appeal Board has unlimited authority to issue for hardship cases, yes, sir.

Chairman HUMPHREY. Well now, I have dealt with that Oil Import Appeals Board for years. I want to tell you, that is the hardship right there. I say that most respectfully. Who is the gentleman that was the Chairman over there?

Mr. SIMON. Can I assure you that has changed?

Chairman HUMPHREY. Well, you had one man over there that was quite helpful but two others that weren't, every time we needed some help.

Senator RIBICOFF. What impressed me most about Mr. Simon during the reorganization hearings we had is that he gave us an answer and then the next day followed it through. You find very, very few people in Government that have the courage to make a promise on their own without first getting a lot of clearances. I personally would put a lot of faith in Mr. Simon's assurances to you, Mr. Chairman, because he has proven himself. It was just a matter of days, during the hearings in the reorganization plan. For years New England was trying to get somebody to listen to their special energy problems. He said he would appoint a New England committee and it was done immediately, and he has already met with its members. So I take Mr. Simon's word on its face value. I appreciate you can't often do that when dealing with a complicated bureaucracy.

Chairman HUMPHREY. What kind of word can you give me for my constituents? I want them to believe, I want to be a believer.

Mr. SIMON. I don't blame you.

Chairman HUMPHREY. Norwich is coming through OK. I want to know what is going to happen up my way.

Mr. SIMON. I hope you don't think I am making all sorts of promises that I can't deliver.

Chairman HUMPHREY. No, no.

Mr. SIMON. All I will do is just do my best with a hell of a bad situation where we have got shortages in particular areas of this country and we are working as best we can to solve it.

Chairman HUMPHREY. May I make a suggestion. Maybe you have done it. You mentioned the States and the problems of the air standards and so on. Could you call in from each of the States one representative of the Governor's office to sit down with you, and in these areas at least where there seem to be shortages, to get the story directly from you as to what the problem is, how you think it can be remedied, or what emergency actions can be taken?

Mr. SIMON. Absolutely.

Chairman HUMPHREY. I would really appreciate it if you could, because with people now knowing that we have this subcommittee and with other Senators being so involved, we are getting unlimited

99-740—73——7

numbers of requests for information which neither I and my staff nor the committee staff are unable to provide. I strongly recommend that you call and manage a meeting of the people at the State level that have some responsibility for working with legislators, Governors, or commissioners there and explain to them what your new program is and what you hope to be able to do.

Mr. SIMON. I will do that if you in the interim can supply us with information on where these contracts used to be that aren't being signed right now. Let's see if we can do something about that. If you give me the specifics, we can deal with them. When everybody says "My plant is shut down," we look for the plants and we can't find them. It's like the kerosene shortage in Maine last year. We never found that and we heard all about it. You will be very helpful to us. We will try to be responsive to you.

Senator RIBICOFF. You say there are 23 majors. It shouldn't be hard for you to bring together the representatives of 23 majors in Washington and sit down with them and say, "Look, gentlemen, this is a problem, what are you going to do about it?" In other words, when the chairman says can't we get a simple answer, it would seem to me it should be possible to make policy when you only have 23 major companies.

Mr. SIMON. I am doing that now.

Chairman HUMPHREY. We will have to leave you now to vote; I want to say to the other witnesses that are here that the staff will inform you as to our return. Mr. Simon, I believe that we should let you go to your other work. I don't believe there are any other questions right now.

Mr. SIMON. Thank you.

Chairman HUMPHREY. If you will follow through, we shall follow through on the suggestions that you made and, Mr. Simon, I want to thank you very much.

[A short recess was taken.]

[The prepared statement of Mr. Simon follows:]

PREPARED STATEMENT OF HON. WILLIAM E. SIMON

Mr. Chairman and members of the committee, I am delighted to appear before you today to discuss the outlook for the supply and price of gasoline. There is a widespread concern that prices are going up and that many gasoline stations are going out of business because supplies are short. Let me outline the scope of the problem and the potential solutions that we see.

THE GROWTH OF DEMAND FOR GASOLINE

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 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 than last year.

FAILURE TO BUILD REFINERIES

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 it has become 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, let me mention a recent trip by Senator McIntyre and Representative Conte to inspect a new refinery in the State of Washington. Both were amazed by the cleanliness of this refinery and, as Representative Conte put it, one had to ask whether the refinery was operating to learn that it was, in fact, operating at full capacity.

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 percent 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 shortage 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 10 percent from last year, while demand is up 6 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.

Let me point out some of the implications of the potential gasoline shortage. In the first place, it will tend to be concentrated in certain geographic areas and will impact on some consumers more than on others. Some areas of the country close to pipelines and refineries and served by the retail outlets of the major oil companies will not feel the pinch as much as others. Other areas, relatively distant from pipelines and not well-served by the major oil companies, may feel it rather sharply.

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 6 regional subgroups 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. We are meeting with these groups to identify regional problems and to deal expeditiously with them. These meetings are helping us 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.

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. Most major integrated oil companies will be able to make their own internal allocations and will not run out of crude and gasoline supplies.

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 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 on 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. The majors now need all the low-sulfur crude they can get for their own refineries. In some cases they must utilize low-sulfur crude because of local air quality standards, even though their plants are designed for refining high-sulfur crude. Consequently, the major companies are terminating long-standing arrangements to supply independent refineries. For all these reasons, 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 conutry 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 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 old import program and to assure a reasonable stability of prices.

We know that the new program has not solved all of the problems of the independent segment of the industry. We did not intend that it would, nor that it would be a panacea for every interest group. There is no way that the import program can create a barrel of oil. We have, however, tried to confront as many problems as we could in an effort to help the independent segment as much as possible to adjust to the new economics of the oil industry.

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 discouraged 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 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 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 value to their tickets where none existed previously. Independent marketers 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 the 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, 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.

SOLUTIONS TO THE GASOLINE SHORTAGE

We have encouraged domestic refineries to shift their proportions to maximize gasoline yield. This will help in the short run.

What about the long run? What is being done to solve the gasoline shortage for the rest of this decade?

1. We have established a license fee program for crude oil and product imports. This program removes all volumetric quotas on gasoline and allows free importation subject to a fee of 63 cents a barrel or 1½ cents per gallon 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.

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 7 percent tax credit for new drilling, plus a supplementary credit of 5 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 supplies.

Production from new refineries and increased domestic crude oil output is at least 3 years away. During this time, the pressure on gasoline prices will be greatest. This brings me back to our basic concern today: gasoline prices and what will happen to them.

GASOLINE PRICES

Gasoline prices are controlled by the Cost of Living Council. The oil companies have had an incentive under the economic stabilization program to curtail their wholesale distribution in favor of retail sales. This is one reason why independent oil marketers and fleet purchasers have been hardest hit by the oil shortages.

Energy conservation can play an important role in stretching gasoline supplies. 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. Car pools 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. Other 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.

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 costs account for only a small fraction of gasoline prices. 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. The breakdown in the retail price of a gallon of gasoline costing 39 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 79⅓ 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 75 percent of the retail price. By comparison, taxes represent only 30 percent of the price in the United States.

Gasoline prices will probably increase over time. This would provide certain benefits to the nation's refiners and

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 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.

ALLOCATION AUTHORITY

Many groups are now suggesting that we need allocation authority, and the Administration has given this a great deal of thought. The Economic Stabilization Act authorizes this authority for petroleum and petroleum products.

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.

At the same time, in the short-run, I think we may be in a situation in which we may 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.

In attempting to direct the allocation of supplies such as gasoline, I would prefer to work, as we have up to now, through various incentives. It is better to encourage oil companies to move in a desired direction by their own choice rather than to try to force them to move against their will.

In any event, I would not hesitate to exercise this authority if it were necessary to prevent undue concentration of hardship on particular segments of the population. However, I would want to look closely at the impact of this authority on the economic incentives we have created for new investment in the industry. I think we all have seen from the experience in the old Oil Import Program that continued use of allocations, rather than reliance on the marketplace, could lead to artificial difficulties that are at total variance with our basic nationl purposes.

Thank you.

Chairman HUMPHREY. Professor Allvine, please come forward.

Mr. ALLVINE. Yes, sir.

Chairman HUMPHREY. Am I correct in that pronunciation?

Mr. ALLVINE. Yes, sir.

Chairman HUMPHREY. We want to thank you very much for taking time to come to us. I see you are from the Georgia Institute of Technology.

Mr. ALLVINE. That is correct.

Chairman HUMPHREY. And I am privileged to say that I serve on a committee with the distinguished senior Senator from Georgia who speaks with great pride of the Georgia Institute.

You are accompanied by Professor Tarpley; is that correct?

Mr. TARPLEY. That is correct.

Chairman HUMPHREY. Also of Georgia Tech?

Mr. TARPLEY. Yes, sir.

Chairman HUMPHREY. Well, as long as I can remember I was hearing about Georgia Tech, so I'm glad to see that someone is here to help on this rather difficult and complex matter of the fuel industry as it relates to the consumer and the supply and distribution system.

Professor, why don't you just proceed. We can do it one of two ways. We are a bit pressed today on time. I have a conference that we are supposed to be attending. If you would like to review your prepared statement for us, then maybe we can ask you some questions. We will include the full text in the record.

Mr. ALLVINE. All right, Senator. If it is appropriate, I think in 5 minutes I can read through the prepared statement.

Chairman HUMPHREY. Go right ahead then.

STATEMENT OF FRED C. ALLVINE, ASSOCIATE PROFESSOR OF MARKETING, COLLEGE OF INDUSTRIAL MANAGEMENT, GEORGIA INSTITUTE OF TECHNOLOGY, ACCOMPANIED BY FRED A. TARPLEY, JR., PROFESSOR OF ECONOMICS

Mr. ALLVINE. To begin with, I would like to make one observation about the hearings so far. Over the last 4 years I have probably sat in or participated in 10 to 12 hearings and I would very much like to compliment the Senator on the perceptive nature of your questions. If the rest of Congress continues to probe into the industry and shows the same comprehension of the problems, I think perhaps we may find some solutions before it is too late for everyone.

Chairman HUMPHREY. Thank you.

Mr. ALLVINE. So I want to congratulate you for what you have done so far.

I will continue with my prepared statement and I think in about 5 minutes I can read that. Do you have about 20 minutes?

Chairman HUMPHREY. Yes, sir.

Mr. ALLVINE. The shortage of gasoline has already had an adverse impact on competition in the gasoline industry. As the gasoline shortage situation intensifies over te next 2 or 3 years, it could seriously injure and possibly destroy a very significant competitive force in the selling of gasoline to the public.

Independent private brand marketers, the major source of price competition in the gasoline industry, have severely suffered as a result of the supply shortage. This situation is extremely unfortunate for consumers since such independents are specialists in efficient techniques of selling gasoline which result in substantial savings for the public. Already several independent private brand marketers have been forced out of business because of supply shortages. Unless conditions change fairly soon many more independents face the same prospect over the next year or two. If this is allowed to happen competition in the gasoline industry will suffer a major setback.

For the past several years, and until very recently, independent discount gasoline marketers have sold gasoline at much lower prices than their major brand competitors largely because of their relative efficiency.

The marketing cost including profit for many independents is about 5 to 7 cents per gallon. This would be in contrast to the cost of major brand marketing ranging from 10 to 12 cents or more per gallon. The independents are more efficient because of their discount, mass-merchandising method of marketing private-brand gasoline on a high-volume, high-turnover, low-cost and low-price basis. This is in contrast to the high priced method of selling major-brand gasoline. In the latter case, the costs of selling are much greater because of brand-name advertising, distribution of gasoline through large numbers of service stations, high priced locations, very elaborate facilities and costly sales promotion efforts including credit cards, trading stamps, games, and premiums.

The private-brand discount gasoline marketer accounted for an estimated 12–15 percent of the 70.5 billion gallons sold to the public through retail outlets during 1972. At a savings of around 4 cents per gallon, which is a major oil company estimate, the independent private branders directly saved the public around $375 million last year. Furthermore, when price reductions by the majors in response to the independents are included, the savings attributed to the independent discount gasoline marketers run well over half a billion dollars per year.

Prior to the last 6 to 9 months, the independent discount method of selling gasoline was actually forcing a revolution in the major brand methods of gasoline marketing. Through their pioneering efforts with self service, the independents over the last 4 years had actually reduced their costs while the costs of selling major brand gasoline were either constant, or had increased. The improved efficiency of the independents led to their acquiring an increasing market share at the expense of the major brand marketers. As a result of the intense competitive pressures of the independents, the costly major brand method of marketing was starting to crumble. The consumer savings from more efficient methods of marketing would have been substantial. Now, however, with the extraordinary developments in the gasoline industry, the competitive pressures of the efficient independent discount gasoline marketers are no longer being felt.

Ironically the efficient discount gasoline marketer, the primary force against inflation in the gasoline industry, is facing the realistic possibility of extinction. The critical problem confronting the independent discount gasoline marketers is obtaining economical supplies of gasoline to sell to their customers. As crude oil and refined products have grown exceptionally tight some refineries have taken advantage of the situation. They have diverted crude oil and refined products from independent refineries and discount marketers to their direct controlled operations. Many of the independents having supplies substantially reduced have been forced to increase their prices, reduce hours of operation, and to lay off employees in order to try and hold their operations together. Those that have been particularly hard hit by severe cutbacks in supply have ceased to operate.

The net effect of diverting products from the independents and reducing their supply has been to neutralize the independent price marketer as a viable competitive force in the marketplace. The meaning to the public of the supply squeeze exerted on the independent can in part be observed from studying the weekly prices of majors and independent private branders in Los Angeles, Portland, Seattle, and Phoenix for the last few years as shown in figures 1–4. I think if the Senator will glance at these charts he will see the dramatic change in the nature of prices that occurred as of April 15, 1972, a very significant date, and I think the Senator might well keep this in mind. All of the figures show that around mid-August 1972, week "33/72", that price competition suddenly stopped, and many markets became uncannily stables overnight.

[Figures 1–4, referred to above, follow:]

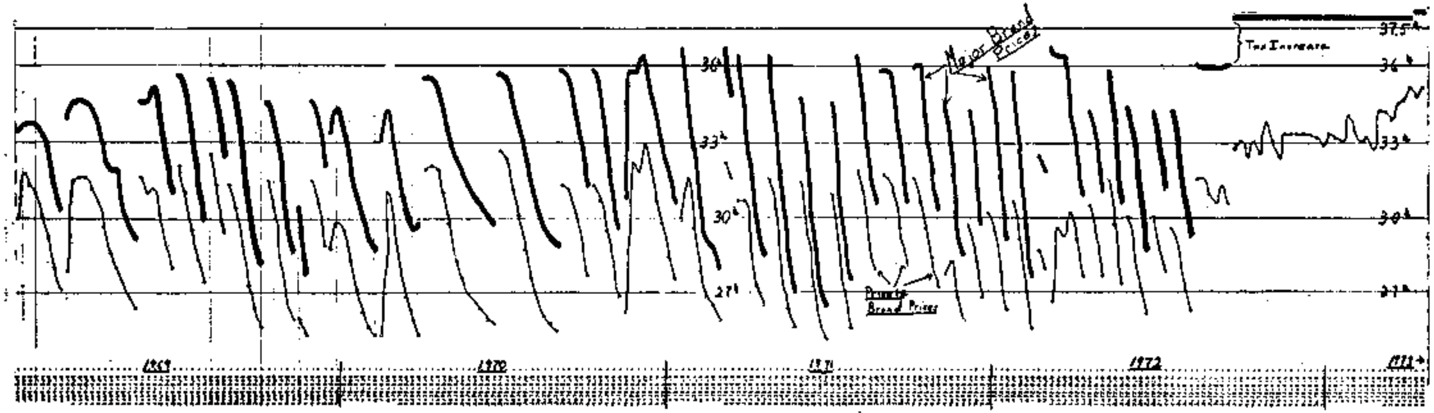


FIGURE 1.—Average weekly prices for major and private brands gasoline in Los Angeles from 1969 to April 22, 1973

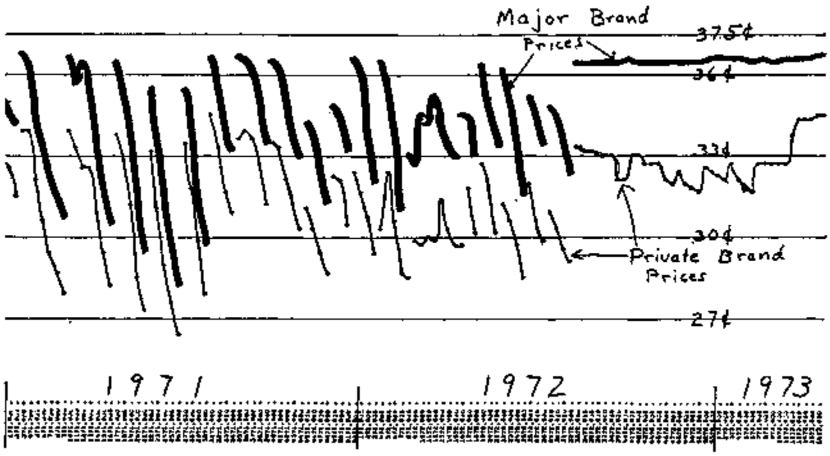


FIGURE 2.—Average weekly prices for major and private brands gasoline in Portland, Oreg., from 1971 to 1973

FIGURE 3.—Average weekly prices for major and private brands gasoline in Seattle, Wash., from 1971 to April 1973

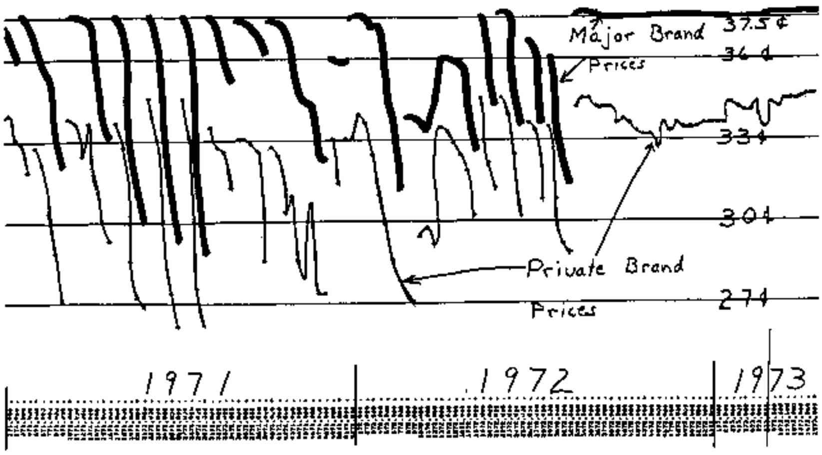


Figure 4.—Average weekly prices for major and private brands gasoline in Phoenix, Ariz., from 1969 to April 22, 1973

Mr. Allvine. With gasoline supplies being reduced to the discount marketers the major oil companies no longer had to concern themselves with the competitive threat of the efficient independent discount marketer. Control over supply and its diversion from the independents has proven to be a very effective tool to regulate and destroy price marketing. Since supply has been regulated to the independent price marketers, the price paid by consumers for gasoline skyrocketed. For the past 37 weeks—through April 22, 1973—in comparison to the prior 37 weeks, the average price of major brand gasoline increased by 3.5 cents per gallon in Los Angeles, 2.4 cents in Portland, 3.9 cents in Seattle, and 2.4 cents in Phoenix.

Price increases of the magnitude shown for four primary western cities have been fairly general throughout the country. For example, the price of gasoline to major brand dealers for 100 cities has increased by approximately 2.1 cents per gallon for 1973 in comparison to the same period for 1972. This in turn means pump price increases of around 3¢ per gallon. The general stabilization of wholesale prices to dealers also occurred around mid-August 1972. With the magnitude of the price increases, the additional cost to the public for gasoline runs close to $2 billion per year.

If competition is to be preserved in the gasoline industry, then the gasoline supply crisis should not be used by some suppliers to wage a war of annihilation on the independent discount gasoline marketers. Action is needed on the part of the Federal Government to see that scarce product that historically has been sold directly or indirectly to the independent discount gasoline marketers is not diverted to major oil company operations. A base period for determining historical supply relationships might be the first 6 months of 1972, just prior to the development of severe product shortages in the United States.

As a matter of fact, as an offhand comment, gasoline was running out of the ears of some suppliers a year ago at this particular time.

Suppliers would be required to continue to sell refined products to customers in the same proportions that existed during the base period. The price of product would remain competitive for the class of customer.

Clearly these are extraordinary times in the gasoline industry, and unfortunately Government involvement is necessary to preserve competition until more normal supply conditions return. Over the years many laws have been passed that have directly benefited the giant integrated oil companies, such as the Connally Hot Oil Act, demand prorationing, the depletion allowance, and the expensing of intangible drilling costs. Now the Federal Government has the opportunity to take the necessary steps to see that competition is preserved during this period of extreme product tightness.

Thank you.

Chairman HUMPHREY. Well, I want to thank you very much, professor. That is a powerful statement. It is succinct and informative and I think of very great value to the subcommittee. I will see that every member of the full committee gets a copy of your statement.

Let me ask you a question. Do you see any evidence of antitrust violations in this situation that you have described?

Mr. ALLVINE. I would rather ask Professor Tarpley if he would comment on that question.

Chairman HUMPHREY. Professor Tarpley.

Mr. TARPLEY. Well, I do see a problem, Senator, in that we now see consistently in the four markets we have talked about, and it does extend for the country as a whole, a great deal of price stability in markets that have been characterized by lack of price stability. We do see some things happening around August 15, 1972. There may be some other possible explanations but one scenario that has been suggested is that the word was passed that there was going to be a price freeze. August 15 was the first anniversary of the President's wage and price freeze. The scenario has been suggested that the majors said get your prices up because they will be frozen, and when they got them up there are some indications that price protection was withdrawn.

This was done by 20 different firms and there is a question of whether it was coincidence or not. I don't know.

Chairman HUMPHREY. The pattern that disturbs members of the subcommittee and many Members of Congress that I have mentioned earlier in today's testimony is the pattern of cutting off the independent dealer or wholesaler, which in turn results in the independent retail outlet either going on short hours, limiting amounts of gasoline, or having to close up entirely.

At the present time some evidence has come to us of the majors opening new outlets of their own integrated operations.

Have you had any pattern, either one of you, have you sensed any such pattern?

Mr. ALLVINE. Senator Humphrey, you really do not have to have the opening of a large number of major brand stations to divert supplies from the independents to the major system. Like Exxon and some of the other companies have said, we have two or three or more times as many stations as are needed, so you don't have to open more stations to divert the product from the independents to the major system. I think that perhaps there are still some options some promotions, some efforts by the major oil companies to expand their marketing operations, but that is not necessary as part of the process of really eliminating the independents as a viable competitive force.

I think that the solutions that you heard about earlier from Mr. Simon are long ranged. However, as you underscored, the problem is urgent, it's immediate, it's today. The solutions of the Government are going to help 2 to 3 years down the road. I think this is exactly the case and most of the independent brand discount marketers will not be around to see the time of relief. If there is not some action on the part of the Government perhaps by the end of the summer or early fall, we will see the major crisis in the independent sector of the industry.

And another thing you asked or alluded to was why did this situation occur all of a sudden? There are environmental problems delaying pipeline and refinery construction and there is no doubt about this, but I was told more than 2½ years ago by a major oil company's chief executive officer, that in the not too distant future the independent marketers were going to have a real difficult time obtaining supplies. At that time the statement didn't really have any meaning to me. But today with the calls and the pleas that I have had from many independents, I really understand the meaning of the conversation of a few years ago. I don't think supplies have just all of a sudden gotten tight.

Furthermore, you were told earlier that the independents operate on marginal, spot gasoline. That is only partially true. I would say, and I can't know exactly, that perhaps only 25 percent of the independents have been obtaining their gasoline in the spot market. Most of the gasoline has been obtained on long-term historical supply relationships. The biggest of the independent marketers buys only a very small percentage of his supplies in the spot markets. I believe you would be misled to think that independents are marginal operators who have leached on the market and have bought distressed products at low prices. I think that is very misleading to develop that kind of interpretation.

Chairman HUMPHREY. We have one independent marketer that I referred to here the other day from my home State that has been in business since 1937. I believe it is, and has been doing business with the same company, and he has noticed now that as of July 1, he will be out. So he hasn't been any spot buyer. He has had a long-term contract, years and years and years, and many of them are in exactly the same situation.

I am on the telephone every day in a rescue operation, with very little success I might add trying to rescue some wholesaler, some independent operator that may have 6 stations, 20 stations, or be servicing a number of outlets, particularly in rural areas. The farmer that uses gasoline and diesel fuel is finding it difficult to obtain supplies from his old suppliers, people with whom he has done business for years and years. Many of these farmers have accounts with these independent outlets; that independent keeps him on the books, as we say out home, for a long time until he gets his advance payment on his crop loan or until he markets some of his product. Those people are being cut off today, and its going to have a very serious impact upon the production of food, and, of course, upon the costs of production because they are having to pay any price that is asked now to get supplies.

Also, have you noticed that most of the outlets are not under price control?

Mr. ALLVINE. That is correct. The major-brand dealers which I would imagine sell perhaps 90 percent of the major-brand gasoline, they are franchised dealers and are not under price controls.

Chairman HUMPHREY. So the opportunity for them to take advantage of the market on price at the retail outlet is there, particularly in a tight supply situation, isn't it?

Mr. ALLVINE. It certainly is.

Chairman HUMPHREY. Let me ask you, is there any solution that you see to the plight of the independents except some form of move toward enforced allocation?

Mr. ALLVINE. Senator, if I felt there was any way short of Government intervention to save and to preserve what I consider the most important competitive sector of the gasoline industry, I would like to suggest it to you. I do not see any way short of something along the lines of sharing the shortage in some proportional and equitable way to save the independent gasoline marketer. That is what was suggested to you. The Oil Policy Committee spokesman suggested to you that they have given great relief to the independents as a result of the new energy policy of the President. I believe that you will find if you talk to most of the independents that any relief from the new old policy is down the road 2 to 3 years. Import tickets are a hunting license to import gasoline that costs very near retail price. This is no relief, it's slow death as opposed to sudden death for the independents.

Chairman HUMPHREY. What about the financial and technical ability of the independents to import not only the refined product but more basically the crude?

Mr. ALLVINE. I have somewhat more faith in the ability of some of the larger independent refineries to import crude oil than the smaller midcontinent ones. Companies that you mentioned like Ashland, and Tenneco, and others that are international operators are in better position to find the crude and to import it. I think such refineries are going to increasingly import crude oil and be a source of supply of gasoline to the independent discount gasoline marketer.

Chairman HUMPHREY. But in order for them really to utilize this wide open import policy now they have to expand their refinery capacity, don't they?

Mr. ALLVINE. Right, and it will take 2½ to 3 years at least to bring any relief.

Chairman HUMPHREY. If they can get clearance, for example, after the environmental impact studies that have to be made, for licensing of the site. We had evidence here yesterday that it takes a year, to a year and a half, or sometimes even longer to get site approval to locate a refinery, and then you wait for your State and Federal environmental impact assessment. So not only do you have the problems that come with the building, which takes time for one of these complicated and very costly refineries, but you run into some legal difficulties, do you not?

Mr. ALLVINE. The most optimistic estimate, it is 2½ to 3 years. If you take into account other considerations, it will be 4 to 5 years. We are looking at a long-term tightness of supply in this country at least for the next 2 to 3 years, as far as I see the situation.

Chairman HUMPHREY. At best.

If we are going to get any relief at all that will be meaningful now, that will preserve a competitive industry, No. 1, keeping the independents as a competitive force and, secondly, to have any kind of relief that will take care of the consumer, it has to be done on an emergency basis now, is that correct?

Mr. ALLVINE. I don't think there is any question about that, Senator.

Chairman HUMPHREY. Have you had a chance to review any of the legislative proposals that have been advanced on ways and means of more equitable distribution of supply?

Mr. ALLVINE. I have read some of them, Senator.

Chairman HUMPHREY. I have a resolution, Joint Resolution 98. I wish that you could take a look at it if you have some time. It is not necessary to do it right now. It is on an allocation board; it calls on the President to establish such a board, defines the composition of the board and outlines some of its duties. If you could do that we will see that you get a copy of the resolution, and if you could send back to me your commentary I would greatly appreciate it, and, Mr. Tarpley, if you would do the same thing, between you together you might share your thoughts.

Congressman Carey.

Representative CAREY. I think you are due on the floor for a vote and I don't want to prolong the session.

Chairman HUMPHREY. I might leave here and let you proceed with the hearing if you would care to do it.

Representative CAREY. This is the last witness?

Chairman HUMPHREY. That is correct.

Representative CAREY. I would like to make an inquiry and get some advice from, quite evidently, an expert on the economics of the distribution industry in petroleum.

Don't you think, Professor Allvine, that we ought to require a little more effort from this industry, which continues to be the recipient of an even greater schedule of benefits, such as a benefit for drilling and exploration, the 7-percent investment credit, the benefit of the depletion allowance, as well as the benefit of an unlimited demand and decreasing supply, which makes for unquestionably a high ratio of profits to investment?

For all of these benefits, don't you think we should at least require that they build an expanded storage capacity to alleviate and avoid these shortages and depletions that cause the imbalance in the market? Don't you think if they could move at peak production levels and full capacity and fill new storage facilities we could avert, in the future, some of this unfortunate shortage situation we are now experiencing?

Couldn't we require them to build this storage capacity with their own funds in return for import licenses?

Mr. ALLVINE. I made that proposition 6 to 9 months ago when I was advocating that the import restrictions be raised. Companies would be free to import products as long as they were willing to make the investment in an emergency reserve of perhaps 60 to 90 days. They might be able to get some tax incentive to help them defray the cost of building emergency stocks like the European countries have.

Representative CAREY. They can get a 7-percent investment credit on building the storage facilities which they can then depreciate. They have all of the advantages in the world. I don't want to give them one more nickel's worth of incentive to become bigger millionaires. They are in the best possible position: There is short supply, big demand, and they possess unlimited capacity in technology to operate effectively. We ought to make them do something.

Again, how about making them build storage capacities as well as increased refinery capacity? For example, today Exxon decreased its price on residual by 11 cents a barrel. Why? Because they wanted to make less money? No. Because when they make gasoline, they have to make residual and they want to move the residual, get money for it now and have someone else put it in storage for next winter. The poor marketer is going to have to buy it, admittedly at a favorable price, but tying up his money now and hold the fuel for next winter. It will then be off of Exxon's books and out of its inventory. I think Exxon ought to build the inventory and use the 11 cents a barrel to build more storage capacity.

Mr. ALLVINE. It is very interesting if you look at who has expanded refining capacity since the beginning of the import controls in 1959. Of the major oil companies, the largest—Exxon—has built most of their capacity abroad and has not kept up in terms of their onshore capacity relative to the rest of the industry. I think it amounts to somewhere in the neighborhood of 400,000 to 600,000 barrels. If they cared about this country, they would have put it here; instead they built in overseas.

Representative CAREY. I think we ought to look at what is happening because of investment incentives, credits, deferral of income, overseas tax advantages, and find out how patriotic some of these international oil companies are behaving in terms of bringing the crude back to this country. I understand that it's going elsewhere because prices are more attractive or currencies are more attractive, and they're building up new international companies in Spain and other places. Production is not coming home to Uncle Sam despite all of the inducements we are giving them. That is a problem.

Mr. ALLVINE. I concur with you.

Chairman HUMPHREY. If you will stay to discuss further, I would like to have you do it. I must go down and cast a vote. But before I do it, how much do you estimate it will cost the consumer if private brand marketers are eliminated in the next year and cut-rate gas disappears?

Mr. ALLVINE. I would say in a direct sense it is going to cost the public somewhere in the neighborhood of half a billion per year, which will continue on into the future. If the independents are eliminated, given the nature of this industry, they are not going to spring back. In addition, the public will lose more since the competitive response of the majors to the independents will no longer exist.

Chairman HUMPHREY. In other words, I think you had a figure of something like $3 billion which was the saving because of the competitive response of the whole industry to the competitive practices of the private independent marketer.

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Mr. ALLVINE. Since the independents have been constrained in the last 6 to 9 months, there has been an increased cost on an annual basis in the neighborhood of $2 billion to the public.

Chairman HUMPHREY. We are paying some price!

Congressman, would you care to continue?

Representative CAREY. Just for a few points.

Chairman HUMPHREY. I am going to excuse myself and express my thanks to you, and I want to assure you that every member of our committee will receive a copy of your testimony.

Mr. ALLVINE. Thank you.

Representative CAREY. Thank you, Mr. Chairman. If I could just continue for a few minutes to see what you think we can legitimately demand of this industry in return for what I think is a plentiful supply of benefits.

I mentioned additional storage capacity. Do you think that as a requisite for getting an import license, which will be continued without fee or without tariff, we could logically exact any more targets, goals, or requirements of the industry?

Mr. ALLVINE. Congressman, I am a little bit concerned as to where the burden of these additional requirements may actually come to rest. I am afraid that the burden may be harder on the independent refineries and not the integrated refineries with the crude oil. You have to be cautious about what is going on today. The integrated oil companies would like to solve their problems by increasing the price of crude oil by 50 to 75 cents a barrel while holding wholesale and retail prices close to where they are today. This would be very beneficial to the integrated oil companies because it would allow them to subsidize their refining and marketing and hurt the independent refineries and marketers.

Representative CAREY. Just hesitate there. I am told that most marketing and distributing functions of these integrated companies consistently lose money and they balance this off by their profits on crude production and the balance sheet then looks all right.

Mr. ALLVINE. I would say if you were able to get at the books of any of the giants and look at their profits from refining and marketing for 1971 and the first half of 1972, you would find that you are pretty close to being right. Refining and marketing earned little, if any, return, while most of the return comes from the crude oil end of the business. Crude oil has always been the tail that wagged the dog. Today, with crude oil prices frozen, and the high cost of bonus bidding, I would say refining and marketing, for the first time in the last 20 years, for any significant period, is making a fairly nice rate of return. However, they would like to change that. As soon as they are able to get the crude oil prices up, then they will commence to squeeze down on marketing and refining. The tax benefits are there to do it.

If you look at the nature of this industry since the turn of the century they have always captured at one level of the industry disproportionately high profits and have used this to squeeze people at the other levels. Today the problem facing the giant integrated international oil companies is how do you breathe profit back into refining and marketing. Considering first the international situation, the foreign countries are taking over the crude oil operations. The integrated oil companies no longer have incentive in the foreign countries to take profit back to crude oil because they are going to have to share it with the sheiks. Therefore, they now have to find some way to make profit in refining and marketing. For the first time in many years we see Europe becoming profitable. In the United States the integrated oil companies face much the same problem. If you look at the situation from the big picture how do you get profit back in the refining and marketing? The only way to do this is to delicately balance supply and demand. If you can delicately balance these two, then you can see that product does not move in the hands of the independents that have not existed on subsidies. That would in a literal sense "set up" the majors. Now that they have to make money in refining, they would have to increase their prices. The unsubsidized independent sector of the industry would grow and more deeply penetrate the market. The supply shortage today is very unfortunate for the independent companies.

Representative CAREY. Tell me, what could Government do within its own resources to help alleviate this situation? The Government is a major customer, is it not, of this industry, a major buyer of the products across the board, especially Navy, Air Force, and other Government installations. Offhand, what percentage of the market does the Government supply? What could be done by the Government as a consumer in this field to perhaps alleviate the shortage? Could the Government trade off some of the Navy oil reserves, for example, in return for product and get the Government out of the competition in the marketplace?

Mr. ALLVINE. That is sort of a new request. I would rather reserve my comment until I have a chance to think about it.

Representative CAREY. Could we use the Government buying power and Government oil reserves and Government position? The U.S. Government is a major holder of reserves, as well as a major buyer of product, right? Could we adopt a system of Government practices that would alleviate, for example, the jet fuel shortage or the consumer shortage in gasoline for motor vehicles? Perhaps we wouldn't need to run as many Cadillacs.

Mr. ALLVINE. I would rather reserve my comments. But if those reserves can be made available to the independent refining sector of the industry during a period of shortage that would certainly help. If the Government would act to bring in Alaskan crude oil, that would also help alleviate the crude oil shortage.

Representative CAREY. Now you are coming to a point I would like to pursue for just a minute. Are we doing everything in an organizational way that we should be doing to meet this problem of current imbalance in a proper way? OEP is out of business now. They used to deal with this problem. Now its functions are fragmented between Treasury, Interior, Atomic Energy Commission, Bureau of Mines, and other various parts of Government, all with separate responsibilities.

Do you think that we are lacking something by not having a central office of energy control or energy coordination?

Mr. ALLVINE. That has certainly been one of the problems—the many diverse departments involved in the energy question. You forget to mention the Federal Power Commission as another one. Each one going its own separate way without any sort of coordinated energy policy has contributed in some part to the nature of the problem we have today.

Representative CAREY. Internationally, in this hemisphere, don't you think that we ought to try to be a little more cooperative and reach out to our neighbor to the North, Canada, and our neighbor to the South, Mexico, and begin to talk to them and work with them on a common approach viewing the energy problem as a North American problem? They have some supplies right now without excess demand. We have excess demand without supplies. I know of no effort being made to try to work with Canada and Mexico on a resolution of this crisis despite the fact that they have everything to gain by our excess demand, while we have everything to gain in terms of cooperation in view of their excess supply. Do you know of anything that is being done to discuss this as a common problem with Canada and Mexico?

Mr. ALLVINE. I think something along the line of a hemisphere alliance as you are suggesting is very appropriate. The only thing I think you would have to realize is in each of these countries you are going to be working with the four or five giants of the industry because their penetration in——

Representative CAREY. Not if we deal on a nation-to-nation basis. I think you have a nationalized industry in Mexico, do you not? I believe they nationalized the petroleum industry a long time ago. In that case you wouldn't run into this. In Canada we would have a different situation. Certainly this is going to become a common problem in this hemisphere. If they want to develop and increase capacity, they could use some technology from us. In turn, they could help us resolve our pipeline question through negotiation, not necessarily a first pipeline but the second or the third pipeline.

I think these are the kinds of things we should be talking about with our neighbors.

Mr. ALLVINE. Particularly in the case of Canada, if they could see some possibility of relief, if they got themselves in a critical situation, I believe they would be more willing to release some crude oil supplies to the United States now. However, they are becoming concerned about what happens if they get themselves into a crude oil bind, and so they are building their own reserves. If we would share the reserve problem then more product could be made available today during the period of severe product shortage.

Representative CAREY. Well, if they read headlines saying that there is a gas holiday in the United States with rationing and so forth, they are not going to want to do very much business with us, are they? In other words, if we are in a situation where we are getting into all kinds of trouble such as having travelers on Memorial Day or July Fourth go out in the country and not be able to get home because they can't purchase gasoline they are going to stay far away from that kind of situation, are they not?

Mr. ALLVINE. I think that would be one they would want to keep their hands off.

Representative CAREY. I would hope the administration would get to talk to Canada and Mexico before Memorial Day.

Thank you very much. The subcommittee is adjourned.

[Whereupon, at 3:15 p.m., the subcommittee adjourned, subject to the call of the Chair.]

THE GASOLINE AND FUEL OIL SHORTAGE

SATURDAY, JUNE 2, 1973

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON CONSUMER ECONOMICS,
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., the President Wilson Room, the Leamington Hotel, Minneapolis, Minn., Hon. Hubert H. Humphrey (chairman of the subcommittee) presiding.

Present: Senator Humphrey.

Also present: William A. Cox and Jerry J. Jasinowski, professional staff members.

OPENING STATEMENT OF CHAIRMAN HUMPHREY

Chairman HUMPHREY. This is an official meeting of the subcommittee of the Joint Economic Committee of the Congress of the United States. The subcommittee is known as the Subcommittee on Consumer Economics. It is my privilege to serve as the chairman of the subcommittee. For the benefit of our audience, this committee or this joint committee has been established by public law, the Employment Act of 1946. Its jurisdiction ranges over the total economy and all developments within the economy. Its powers are of recommendation.

We are very fortunate to have with us this morning two of the Members of the Minnesota congressional delegation, Congressman Fraser and Congressman Frenzel. We will have Congressman Karth with us later on today. I am privileged also to have the statements of other Members of our delegation, and those statements will be made a part of the record. For example, I shall include in the record as the first statement following the opening of this hearing, the statement of Senator Walter E. Mondale to the Joint Economic Committee. Secondly, the testimony of John Blatnik. Mr. Blatnik's representative, Mr. Daniels, is here with us this morning. Thirdly, the statement of Mr. Karth, Joseph Karth. As I said, Congressman Karth will be with us later on. The statement of Congressman John F. Zwach of the Sixth District will also be included, and a statement of a member of this subcommittee, a gentleman who had hoped to be with us today, Congressman William Moorhead of the State of Pennsylvania. Congressman Moorhead is a man of considerable ability and talent, and has worked very closely with the Joint Economic Committee over the years.

I also want to have included in the record at the appropriate point a telegram that we received from the Association of American Railroads. The telegram speaks for itself. It notes, for example, that any significant shortages of diesel fuel for railroad locomotives will have a definite adverse impact on the movement of grain and agricultural products from the grain-producing areas, from grain-producing and agricultural areas. Service for these products is inseparable from railroad service generally. Since the first signs of diesel fuel problems, increased prices for oil for railroad purposes have ranged from 50 percent to 100 percent. Increased prices, 50 percent to 100 percent. Little, if anything, further can be done by the railroads to conserve diesel fuel without adversely affecting their customers in the public interest. Massive further reductions in horsepower and speed, even if effective in conserving fuel, will create problems of terminal congestion and car distribution and supply which cannot be met in view of the high levels of traffic in already strained freight car and locomotive supply. This is from Mr. R. R. Manion, vice president, operations maintenance department, Association of American Railroads.

[The telegram referred to above follows:]

[Telegram]

WASHINGTON, D.C., *May 31, 1973.*

HON. HUBERT H. HUMPHREY,
Senator,
Minneapolis, Minn.

This telegram is sent in behalf of the Association of American Railroads representing 97 percent of railroad mileage and revenues in the United States. Railroads of the Nation are vitally concerned about fuel supplies and shortage problems. Since December 1972 railroads have suffered periodic shortages of diesel fuel to run locomotives. Commitments as well as deliveries in various parts of the country have intermittently been withdrawn, curtailed, or limited. Upon termination of existing contracts, many railroads are unable to secure new commitments and are able to meet requirements only by buying cargoes from brokers on the spot market. This is unreliable and assures no continuing supply.

National railroad service is vital to the public and national interest, and without it very serious adverse impacts on other segments of the economy will result. Shortages in diesel fuel supply for providing essential railroad service will result in closed factories, unemployment, and spoiled crops. Voluntary controls have not been in effect long enough to assess their effectiveness. Importantly, however, such voluntary controls specifically recognize railroad freight and passenger service as vital and essential public transportation services entitled to priority allocations. It seems clear now that mandatory production controls are necessary at this time to assure adequate production of distillates. A large problem last year was the failure to produce adequate supplies of distillate with consequent shortages for such essential users as public transportation (including railroads) and heating, while supplies of refined gasoline for pleasure automobiles was plentiful.

Railroads are carrying the highest volume of ton-miles of traffic in their long history, and intensive demands are being made currently for service from all areas of the economy. This is particularly true for the movement of grain where volumes have far exceeded last year's high levels. Numerous spotty shortages of fuel oil have been suffered by railroads around the country and many in the grain-producing areas since the beginning of the diesel fuel shortage. Any significant shortages of diesel fuel oil for railroad locomotives will have a definite adverse impact on the movement of grain and agricultural products from the grain-producing and agricultural areas. Services for these products is inseparable from railroad service generally.

Since the first signs of diesel fuel problems, increased prices for oil for railroad purposes have ranged from 50 percent to 100 percent. Little, if anything, further can be done by railroads to conserve diesel fuel oil without adversely affecting their customers and the public interest. Massive further reductions in horsepower and speeds even if effective in conserving fuel would create prob-

lems of terminal congestion and car distribution and supply, which cannot be countenanced in view of the high levels of traffic and the already strained freight car and locomotive supply.

R. R. Manion,
Vice President,
Operations and Maintenance Department, Association of American R.R.

Chairman Humphrey. It is my duty and privilege as chairman to open these hearings. I wanted to bring the subcommittee officially with its staff members that are here with us to listen to you. We want to tell you in the opening what we are attempting to do. I don't think I need to belabor the fact that what has been done this far has been inadequate, in that we find ourselves now in not only a difficult position but a precarious position.

In the weeks that we have had, or months I should say, since the opening of the first session of the 93d Congress, we have had a number of hearings and studies made by different committees of the Congress. A little over a month ago, the Subcommittee on Consumer Economics, of which I am privileged to be chairman, held a series of hearings in Washington on the nationwide gasoline shortage and the prospects for softening its consequences. I might add that we have not only studied the gasoline shortage problem but the shortage that affects all areas of petroleum products. Fuel oil, which is critical here in the Midwest, diesel, and, of course, other petroleum products such as propane and natural gas, all of which appear to be in short supply.

At that series of hearings that we held in Washington, we were informed that this summer's gasoline shortage would be limited to some 2- to 5-percent nationwide—that's what they call the shortfall—but that it would increase by perhaps 5-percent per year for several years, every year about 5 percent for several years, unless greatly expanded imports of gasoline or expanded imports of crude with the building of new refineries or energetic conservation measures take place very soon.

I think this audience knows that it takes a minimum of 3 years to construct a reasonably good refinery, and sometimes under the new laws that we have for environmental impact and the difficulties we have on site location for refineries in local communities the time is extended to even 5 years. There have been very few refineries under construction—in fact, there are no new refineries that I know of coming into use this year, save one, I believe, in Illinois.

Here in the Upper Midwest, however, we are already living in the future in the unfortunate sense that the fuel shortage here, especially in diesel fuels and fuel oil, has reached levels now that are not foreseen in most other parts of the Nation for another year or two. This region shares the problems of others but has some extraordinary ones of its own, such as exceptional growth in fuel demand from the agricultural sector and related industries and exceptional cutbacks of fuel supplies to this area by refiners. To put it simply and directly, this is the breadbasket and many people do not seem to understand that the agricultural sector of our economy uses more petroleum products than any other segment of the American economy. And, therefore, any shortage of any of the petroleum products has an adverse effect upon agricultural production and distribution.

I can just tell you that in our State here, for example, we need large amounts of either propane, natural gas, or fuel oil for the purpose of drying corn and soy beans. Our soy bean and corn crop is not just what comes out of the field, it is what is available for delivery, and this relates to storage, transportation, and drying. If we have a shortage on fuel, our drying capacity is thereby diminished and we could lose anywhere from 10 to 15 percent up to 20 percent of the crop because of inadequate fuel supplies.

If remedial action is not effected soon, the Upper Midwest may provide a spectacle to the Nation of the economic and social chaos that can be wrought by a fuel shortage of only 10 to 20 percent. Indeed, the rest of the country would not emerge unscathed, because the Midwest provides to the country important products and services, not the least of which are its agricultural commodities. For the sake of people both here and elsewhere, therefore, the shortage must not be allowed to worsen. And if there is a shortage—and we will discuss that here today, as to its dimension or degree—we must make sure that there is equitable allocation of what supplies are available.

Some remedial measures already are being taken. As you know, the President has promulgated a set of guidelines for sharing the shortage through voluntary allocations of supplies by the major oil companies to all customers of record during 1972, using 1972 as a base period. Moreover, the U.S. Senate has before it at this very time legislation to require a similar scheme of sharing available supplies under law with mandatory powers or mandatory allocations.

We are here today to gather some further information that may be necessary to make these regulations more fair and effective. I want to emphasize that the Assistant Secretary of the Treasury, William Simon, who is chairman of the Oil Policy Committee of the executive branch, and also Mr. Duke Ligon, Director of the Office of Oil and Gas for the Department of the Interior, which is administering the voluntary program, have been very forthright in helping to correct some situations that needed emergency correcting. But I must say that we are approaching a situation where just putting the finger in the dike each and every time is not going to answer the problem, or to use a better metaphor, to come in with a bucket of oil from time to time to sort of help us out is not going to remedy the situation. In fact, Mr. Ligon was of great help during the past week in obtaining assurance, I believe it was from the Standard Oil Company, that the Minneapolis Metropolitan Transit Commission will have enough fuel to run all of its regular bus services for the next 12 months, although this fuel will cost a full 25 percent more than before. I belive the company is Amoco, if I am not mistaken.

Despite these efforts, it is my view that inequities and problems in fuel distribution are far too prevalent to handle on a case-by-case basis. My office worked with the Sun Oil Co. for example, to try to help with the DX stations here in Minnesota and we got good cooperation from Sun Oil, but, again, this is where you depend on a Senator or a Congressman or somebody to come in and try to give immediate relief when in fact there is going to be a time when that is not adequate.

Despite these efforts, it is my view that the inequities and problems in fuel distribution are far too prevalent nation-wide, far too prevalent here in the Midwest, to handle on a case-by-case basis. Only the wheel that squeaks the loudest will get attention under those conditions. Therefore, we need a mandatory allocation system for the period of the shortage.

This brings me again to the bill now under consideration on the floor of the Senate. Briefly, this bill provides for immediate mandatory allocations by all sizable refiners to jobbers and distributors of supply quotas based on the period July 1971 through June 1972. It also provides that the President shall issue guidelines such that all refineries receive enough crude oil to run at full capacity. Furthermore, it obliges the President to fix mandatory guidelines within 60 days for supplies to be made available to priority users of petroleum fuels, including farmers, transporters, and public health and safety services. That would include your schools, for example, your bus and your transit systems your motor transport, your railroads, and, of course as I have said your agrciultural economy, and others.

In the Senate debate, I am offering the following amendments: an amendment to reduce the 60 day period for preparation of the priority guidelines to only 30 days. I don't think we can wait 60 days. Secondly, an amendment to provide guidelines to insure that the antitrust laws are vigorously applied to the petroleum industry, while protecting firms from antitrust suits stemming from actions to comply with this act, so long as these actions are authorized and monitored by the Government.

My amendment will also provide that within 6 months the Federal Trade Commission must give a complete report on the overall structure of the oil industry and how it functions in order to provide a better understanding as to the flow of product from crude, domestic, or imported, through the process of refining and through the pipeline out to the wholesalers, the jobbers, the retail distributors. We feel that there needs to be a ventilation of this subject.

I am pleased to welcome, as I said, the participation of other members of the Minnesota congressional delegation at this hearing. We have here with opening statements Congressman Fraser and Congressman Frenzel, and the other statements will be incorporated.

My colleague, Senator Mondale, calls attention to the irony that the major oil companies are reporting record profits at a time when the independent sector of the petroleum industry is being throttled and farmers and vital services are unable to get adequate fuel. He calls for mandatory fuel allocation now, which is exactly the bill that Senator Jackson and I are working on along with other Senators in the Senate at this particular time. A statement by Congressman John Zwach emphasizes the relationship between the fuel shortages we face and the inadequacy of transportation facilities for moving agricultural products to market. Congressman Joseph Karth expresses concern over the way in which major oil companies have pulled out of Minnesota, and he goes on to state that "There are enough disturbing facts concerning the marketing and production practices of the major oil companies to warrant an investigation of possible improper and illegal activities by the Antitrust Division of the Department of Justice and the Federal Trade Commission's Bureau of Competition."

It is to that point that the amendment that I have introduced along with Senator Jackson to the bill now pending in the Senate is directed.

Congressman William Moorhead of Pennsylvania, a member of the Consumer Economic Subcommittee, has sent a very intelligent statement on the overall dimensions of the energy problem, including its foreign policy aspects, the need for additional funds for research, and the necessity for environmental controls, balanced off with necessary production.

And, now, let me turn the microphone over to Congressman Fraser who is here with us, and I want to thank him for joining us. He has an opening statement and then we will proceed to Congressman Frenzel. Then we will come to the witnesses, and our first witness, so you will know, is Mr. James Erchul, director of the Office of Civil Defense, Minnesota Department of Public Safety.

Go ahead, Don.

Opening Statement of Representative Fraser

Representative Fraser. Thank you very much, Senator Humphrey. I want to express my appreciation for being able to join the subcommittee hearing along with my colleague, Congressman Frenzel.

On May 10, the administration announced that a voluntary oil allocation system was being established nationally in response to a worsening fuel shortage. The Economic Stabilization Act has just passed, giving President Nixon authority to allocate scarce petroleum supplies.

The President chose to give this newly legislated authority to the oil industry itself. In doing so, he sanctioned a market-sharing agreement among the major oil companies, an arrangement that appears to be in direct violation of the antitrust statutes.

This is a cruel hoax. A voluntary agreement cannot work and is not working.

In Minnesota, we have been particularly hard hit by the oil shortage. Since January, 160 gas stations in the State have shut down, roughly one-fifth of all the gas station closings in the United States during this time period.

If an allocation system were working, no independent station would have to close. Clearly, we need an alocation system with teeth in it, one that can meet this problem. And we need an effective regulatory mechanism for an industry on which so much of this Nation's well-being depends. Evidence is mounting that the shortage has been engineered by the oil companies for their own ends. I realize that this is a serious charge but I find it difficult to avoid reaching this conclusion after viewing the events of the last year.

During the first quarter of 1973, earnings for the five biggest oil companies increased by 26 percent over the first quarter of 1972. Earnings for the biggest company, Exxon, jumped by 43 percent. And coupled with these statistics, we see that the 18 major oil companies pay an average annual Federal income tax of 8.3 percent of their total net income. This is about one-third the average rate for other United States industries.

Minnesotans are already feeling the impact of the oil shortage in their pocketbooks, and next winter we will feel it in our bones unless corrective action is taken.

I am convinced, along with Senator Humphrey and others, that the time has come for Congress to set up a mandatory system to allocate scarce oil products equitably and on a priority basis. This system must provide machinery that will protect the independent companies and consumers from the monopolistic practices of the major companies.

Mr. Chairman, I have a series of letters which have been directed to me from people here in Minnesota and if it is possible, I would like to have the letters inserted in the record.

Chairman HUMPHREY. Every one will be made a part of your statement.

Representative FRASER. They include letters from the Century Motor Freight Co., from the Columbia Heights DFL, the Twin Cities Area Metropolitan Transit Commission, several letters from the Minnesota-Wisconsin Truck Line, the Minnesota Motor Transport Association, the National Car Rental System, the Yellow Taxi Co.

I want to again express my appreciation to you, Mr. Chairman, Senator Humphrey, for allowing us to join you today. I have given my views on the matter at this moment but we are really here to listen and learn from those who are directly concerned.

Thank you very much.

[The series of letters referred to above follow:]

CENTURY MOTOR FREIGHT, INC.,
Minneapolis, Minn., May 29, 1973.

Hon. DONALD M. FRASER,
Longworth House Office Building,
Washington, D.C.

DEAR MR. FRASER: I need not tell you of the desperate need that we Minnesota Motor Carriers find ourselves in as it relates to diesel and gasoline fuel supplies.

Our own company has no gasoline contracts; we have no commitments for gasoline deliveries with or without contracts; we have no contracts on diesel fuel that comes anywhere near our needs, and in fact the "Contract" has a ten day Cancellation Clause if fuel can't be supplied, and in effect this is no contract.

We serve many points which have no service but our service.

I understand that there is a Bill, S. 1570, as amended which would provide for mandatory allocations. Minnesota is at the end of the supply line, so to speak, and thus we request that you strongly support such legislation.

It is a very, very strong possibility that we could be forced to make strong curtailments in our service, or at best pay such a premium for fuel that actions of a prudent man would force us to put in voluntary curtailments.

The situation is now bordering on the critical.

Sincerely,

MARIO J. BONELLO,
President.

COLUMBIA HEIGHTS, MINN., *May 24, 1973.*

Hon. DONALD FRASER,
Longworth Office Building,
Washington, D.C.

Subject: Gasoline Rationing

DEAR CONGRESSMAN FRASER: At the regular meeting of the Columbia Heights D. F. L. May 10, 1973 the following resolution was passed.

"Be it resolved the Columbia Heights D. F. L. goes on record as supporting a federally sponsored National gasoline rationing system to eliminate the possibility black market situation developing in the energy field".

It is hoped immediate action can be taken on this issue.

Sincerely yours,

JOSEPHINE GRINESKI,
Secretary.
ARLIE MEIMEI,
President.

TWIN CITIES AREA METROPOLITAN TRANSIT COMMISSION,
Saint Paul, Minn., May 15, 1973.

Hon. DONALD M. FRASER,
U.S. Representative, Longworth Office Building,
Washington, D.C.

DEAR REPRESENTATIVE FRASER: We would like to develop your awareness of the problem in our metropolitan area of securing an adequate supply of diesel fuel for the public transit system and to request your assistance in solving that problem.

The Metropolitan Transit Commission recently received only one bid in response to a solicitation for providing a supply of diesel fuel for the next year. The bidder, American Oil Co., indicated that they would be able to supply only 3.8 million gallons of diesel fuel. Our annual requirement is estimated to be between 5 and 6 million. We will need to secure in some manner an additional 2 million gallons in the coming year. If the demand for bus service is increased because of the shortage of gasoline for personal automobiles, that need could increase even more.

We respectfully solicit your cooperation in taking necessary legislative or administrative actions to give priority to public transit systems for diesel fuel. The buses can provide greater transportation service at a much lower per passenger energy consumption than other forms of personal transportation. Just as importantly, many low income people or persons otherwise limited in their choice rely almost exclusively on the public transit system for transportation.

It is most urgent that we continue the operations of the buses in our area in the coming year.

Sincerely,

CAMILLE D ANDRE,
Executive Director.

TWIN CITIES AREA METROPOLITAN TRANSIT COMMISSION

RESOLUTION NO. 73–24 RESOLUTION DECLARING THAT AN EMERGENCY EXISTS IN THE PROCUREMENT OF DIESEL AND GASOLINE FUELS

Whereas the Commission properly advertised for bids to furnish the requirements of the Commission of diesel and gasoline fuels, and

Whereas on bid opening on May 1, 1973, only one conditional bid for furnishing the requirements of diesel fuel was received, wherein the minimum requirements for diesel fuel of the Commission would not be furnished and the proposed contract would be subject to revision in amounts and prices on ten days notice by the seller, and normal force majeure clauses including lack of crude excusing performance, and no bid for gasoline was received: Be it therefore

Resolved, That an emergency in the procurement of adequate supplies of diesel and gasoline fuels is hereby declared.

*   *   *   *   *   *   *

Moved by Commissioner Saxum: Seconded by Commissioner Fenner.

Roll call vote: Yea: Commissioners Fenner, Hjermstad, Holland, Hyde, Nawrocki, Olson, Saxum, Staples, and Chairman Kelm Nay: none. Absent at the time: none.

Adopted: May 2, 1973.

MINNESOTA-WISCONSIN TRUCK LINES, INC.,
April 9, 1973.

Hon. DONALD M. FRASER,
Longworth House Office Building,
Washington, D.C.

DEAR CONGRESSMAN FRASER: We write you regarding the fuel crisis which seems to have a particular impact in our particular part of the country, both from the standpoint of volume and price.

It appears this will be a long range problem. While the level of our service has not been drastically affected at this point, we had an illustration of a warning from major fuel sources earlier this winter imposing a cutback which was never fully implemented and later released.

As a regular route common carrier serving portions of the area that you represent, we would appreciate any efforts on your part to assure fuel availability so that carriers might not find themselves in a position of having to reduce service because of fuel shortages.

We appreciate all your efforts in our behalf and feel this is a problem in which we have a substantial and mutual interest.

Very truly yours,

H. N. Votel,
Vice President.

Minnesota-Wisconsin Truck Lines, Inc.,
May 8, 1973.

Hon. Donald M. Fraser,
Longworth House Office Building,
Washington, D.C.

Dear Congressman Fraser: Thank you for your memo and note on your remarks in the *Congressional Record* of April 30th, and a copy of your letter to the President of April 24th, concerning the establishment of priorities of use for petroleum products including crude oil.

Your remarks are very much to the point, as is your letter, and from what we know, it is entirely correct.

At an informal meeting with Secretary Brinegar on April 26th, in the Twin Cities, we were told how bad the situation is nationally and also that we were somewhat worse off because of our location at the end of the pipeline. We were also generally informed that there was no immediate relief in sight—that refineries were lacking and took at least two years to get on line from this date. We were also told that the President had taken some actions to import crude oil and since crude oil is the basis for the diesel fuel, that this might help that particular supply, eventually.

For your own information, companies like ours use probably a ratio of four gallons of diesel fuel to one of gasoline for the reason that most highway equipment today is diesel.

We were generally notified that the gasoline crisis would probably get more critical because of the impact of summer use from all sources and that the diesel fuel situation would be much more of a problem toward Fall when the heating systems require large demands.

We do support your allocation system and while it probably leaves something to be desired, at least it is the best alternative.

We realize that we will have to pay more for fuel as the result of this "crunch" of our peculiarly bad location, but we believe that any restraints that can be exercised upon the producers to keep this in line will be helpful. Our alternative to any major increase in fuel costs will simply have to be to pass it on, which hits the ultimate consumer in the final analysis.

We are trying to get our industry efforts together and will probably be making a more direct contact with your office. We thank you for your efforts to date, because we feel that we are only in the entering phase in what will be a long range difficult problem that may force us to reduce our services, or worse.

Very truly yours,

Henry N. Votel,
Vice President.

Metro 500, Inc.,
Minneapolis, Minn., March 13, 1973.

Representative Donald Fraser,
House of Representatives,
Washington, D.C.

Dear Representative Fraser: Thank you for your letter of March 12, 1973, regarding the gasoline supply problem. As for further developments in our supply situation, we have been unable to secure any product at all, thereby forcing the close of our remaining ten stations.

Your efforts have been appreciated, thank you very much.

Very truly yours,

Paul R. Castonguay,
President.

MINNESOTA MOTOR TRANSPORT ASSOCIATION,
May 1, 1973.

HON. DONALD M. FRASER,
Longworth House Office Building,
Washinigon, D.C.

DEAR REPRESENTATIVE FRASER: The Motor carriers of Minnesota are presently experiencing a shortage in fuel supplies which we understand will worsen before any improvement is seen. We have been advised by industry experts that this condition will prevail for at least the next 5 years. Last week our office conducted a survey of 25 member carriers of Minnesota Motor Transport Association. Each of these carriers has a problem of securing supplies now or anticipates such a problem in the near future.

The trucking industry is Minnesota's second largets industry employing a total of 189,000 workers and provides materials and products needed by all people in every community in Minnesota. A sufficient supply of petroleum products is essential in order to maintain operation and service.

We recognize the overall needs of energy in our area, particularly during the winter months. We encourage you to initiate or support federal legislation to insure that petroleum products are made available in the state of Minnesota on an equitable basis with other states with regard to relative usage. It is our belief that unless such legislation is promptly enacted, Minnesota will suffer abnormally harsh shortages of petroleum products which in turn will result in unemployment, curtailment in services and other adverse consequences for the people of our state.

Sincerely,

JAMES N. DENNA,
General Manager.

NATIONAL CAR RENTAL SYSTEM, INC.,
Minneapolis, Minn., April 16, 1973.

Representative DONALD M. FRASER,
Longworth House Office Building,
Washington, D.C.

Re: Energy Crisis and the Car Rental Business.

DEAR SIR: A matter of primary concern to businessmen and citizens throughout the United States today is the existing and rapidly accelerating energy crisis. Our entire industry is fully dependent on available petroleum fuel supplies for its very existence. This fact, as well as our concern for the future of our country, is behind our writing you at this time urging immediate action to take the most effective steps possible to minimize the energy crisis.

We believe that in the long run, it is absolutely essential that our domstic producers develop the capability of supplying our petroleum fuel needs from domestic sources. That deregulation of artificial price controls at well head be accomplished in order to encourage oil producers to accelerate domestic supplies. Our import oil policies have presumably been designed to achieve this goal. In spite of this, however, it is readily apparent that very little capital has been invested domestically in expanding our crude oil supplies. In addition, serious opposition from ecologists have retarded efforts to utilize available off-shore and Alaskan oil supplies.

Although we subscribe to the above long-range objectives, until such time as they become more viable, we believe it is in the best interests of our country, as well as our own selfish interests in surviving as an industry, that immediate steps be taken to lift the oil import restrictions and to permit sufficient residual fuel oils and petroleum products to be imported so that the present energy crisis can be minimized. Effective steps should be taken to insure that our domestic sources will be developed as soon as their development is economically and ecologically feasible.

In order to acquaint you with the needs of our industry, we believe it would be helpful to provide you with some basic facts about the car and truck rental and leasing industry.

The car and truck rental and leasing industry provides commerce, industry and the traveling public economical trustworthy mobility unequaled in any society. With the advent of the jet aircraft, the interstate system and our urban society, as well as the diminishing capabilities of the railway industry which is currently so widely reported in the public press these days, the car, truck and one-way rental has become a way of life. With more than half of the U.S. population licensed drivers and the rental industry growing at better than 20% per year, petroleum is crucial.

CAR RENTAL FACTS

1. About 85% of the car rental business is transacted on airport locations, *to businessmen for business* reasons and to tourists flying to their vacation destination and renting automobiles there to avoid driving from their homes to ultimate destination locations.
2. Car Rental is high-quality, flexible and economical.
3. Car Rental conserves energy, since renting is for essential business and fly/drive vacation use.
4. Car Rental provides additional mobility for emergency, alternate, or substitute transportation.
5. Our urban society demands rent-it-here/leave-it-there flexibility so necessary in today's changing attitudes.

TRUCK RENTAL AND LEASING

1. Truck Rental provides industry and the consumer economical direct service.
2. Industry figures support a better than 20% yearly growth.
3. Since rail service is being deleted in many communities, trucks are absolutely essential.
4. Population and migration statistics indicate sudden and dramatic changes in our society. Truck and trailer rentals meet this need.
5. Trucks accounted for 430 billion ton miles in 1971, 22.3% of total registered ton miles by all forms of transportation. (American Trucking Association).

It is our firm conviction that unless positive action is taken now to assure that recently relaxed restrictions on oil imports will be a continuing policy as well as affirmative action to accelerate domestic production, then we as a nation will be in very serious difficulty this year.

Respectfully yours,

ROSS L. THORFINNSON,
Chairman of the Board and President.
VINCE ABRAMSON,
Vice President, Government Relations.

YELLOW TAXI CO. OF MINNEAPOLIS,
Minneapolis, Minn., April 10, 1973.

HON. DONALD M. FRASER,
Longworth House Office Building,
Washington, D.C.

DEAR CONGRESSMAN FRASER: I believe you should be aware of the problem of all cab companies are having with the major petroleum suppliers. I am enclosing a copy of a letter which spells out the problem on a national scale.

In Minneapolis, the Shell Oil Company indicated they were going to stop delivering gasoline to this company, even though the contract does not expire until September 30, 1973. They stated that with limited supplies they prefer to deliver the gasoline to their own customers. I assume they make a greater profit and protect their own investments by this method.

You probably are aware that most of our customers are the poor and elderly, who do not have other means of transportation. This could cause a very serious inconvenience in the City of Minneapolis in the event we are not able to obtain gasoline. This trend could also substantially increase the cost of cab rides.

I would hope you would accept this letter as more than a typical form protest. We are very concerned about the future of our company and its 600 employees.

We would appreciate your immediate attention.

Very truly yours,

JACK F. DALY, JR.,
Executive Vice President.

INTERNATIONAL TAXICAB ASSOCIATION,
Lake Forest, Ill., April 6, 1973.

To the Officers and Directors:

LADIES AND GENTLEMEN: I have just returned from Washington, D.C. where our legal counsel and I engaged in a three and a half hour, heated discussion with the Cost of Living Council concerning the arbitrary and unfair practices of the petroleum industry against taxicab operations.

Within a week of sending out our questionnaire, we received 237 replies in which 138 companies, or 58% reported an increase in their gasoline prices, averaging 2.34¢ per gallon. An additional 10% of the companies reported considerable increases expected in the immediate future. Thirty companies have contracts that are being terminated and 25 companies reported that they were unable to obtain future bids.

The average base price of gasoline is now 14.02¢ per gallon. This means that the average increase was 2.34¢ per gallon, increasing the base price by 16.7%.

Sounds simple enough, but three of the four officials that I talked to at the Cost of Living Council seemed unable to grasp the significance of the increase. We covered every possible economic factor, including our miles per gallon consumption, current prices, inability to get bids, etc.

I presented them with the names of 120 cities where taxicab companies have received price increases of 2¢ or more.

The Cost of Living Council is confused and I think it is up to us to straighten them out. Taking on the petroleum industry is a very substantial project but in view of the blatant, opportunistic actions of the petroleum companies, I feel that we can force government intervention.

My proposal to the Board of Director is to undertake a campaign of informing representatives and senators, as well as all major administration personnel from the President on down, that would have a say on the subject. I will be talking with your president and senior vice president next week on the procedures and would appreciate any views that you might have, as directors of the association.

Sincerely yours,

RICHARD V. GALLAGHER,
Executive Director.

Chairman HUMPHREY. Thank you very, very much. I might state at this point that we have a communication here from Aiple Towing Co. from Stillwater, Minn. This is a bargeline, and Mr. Frank E. Aiple brings to our attention the dangers that are in the present situation where the bargelines have no assurance of supply regardless of price. He says that:

> A solution would be that the oil companies must be urged to make a contract with a reasonable increase and a firm price, say, for 12 months, so the bargelines will know their cost of operation for a short period of time. Some bargelines do have contracts of this nature, but the oil companies will not give them to all bargelines. If this would be put into effect for all bargelines, it would have a terrific impact of stabilizing the soaring price spiral in all water transportation industry.

I think it should be noted that practically every bit of correspondence received rests its case pretty much on the indefiniteness of any contract. No one knows whether he will have any oil next month or not, regardless of price. There is no assurance of continuity of flow.

Congressman Frenzel, we welcome you and thank you for coming.

OPENING STATEMENT OF REPRESENTATIVE FRENZEL

Representative FRENZEL. Thank you very much, Mr. Chairman. I have been trying to get on the Joint Economic Committee for 3 years, so this is a marvelous opportunity for me to be here to be able to insert my statement into the record. Unfortunately, I won't be able to hear all of the testimony, but we will have it available in the record, and it will be a matter of close review for me and my staff. I am grateful to you for bringing the committee out here. I think it is terribly important to us in Minnesota. We are at the end of the distribution network, and whenever we have a supply crunch, Minnesota is always going to be the first place where we have to holler "Ouch."

In my judgment, too, the administration's response to the growing crisis has, until May 10, been less than vigorous. The restrictions on the importation of fuel have been removed, but on the whole, the response of the administration has been disappointing in this area. We have been treating it as a matter or urgent crisis as though it were some vague future problem; however, a couple of weeks ago, when Deputy Secretary Simon was placed in charge of the White House Oil Policy Committee, things began to improve. The voluntary system put into effect on May 10 was better than nothing. I think probably testimony that we will receive today, and testimony which the Oil Policy Committee will receive beginning on June 11, will probably show us that the voluntary system is not adequate in all areas, although it may be in some places, and probably is not adequate in Minnesota. And my guess would be that whether the Congress can respond fast enough or not, I would expect after those Oil Policy Committee hearings, that we will have some kind of mandatory system.

If Congress can respond, that will be well and good, but I look for the Oil Policy Committee to respond quickly.

They have also—that is, the Oil Policy Committee—done some encouragement of the construction of refineries, which I think is absolutely essential. They expect to move forward in the encouragement of distribution and storage facilities, which is probably more important for us in this area, because we are, of course, the kind of market that is not probably going to get refinery facilities, at least in the immediate future.

I hope, too, that we talk about the supply situation from the standpoint of the trans-Canada pipeline. Most of us in this area, selfishly, I suppose, are strong supporters of this potential means for increasing our local supplies. I think also, and I hope, that we will discuss today some of the suggestions for reducing fuel consumption, whether they be national speed limits, whether they be an additional tax on overweighted automobiles, or even we might discuss the unspeakable or unthinkable aspect that is raised reglarly now about increasing gasoline tax. But all of these things will be considered, and I hope that you will help us today by your testimony to assemble the information that is necessary for us to make the right kind of decisions. We need a comprehensive approach. As Senator Humphrey has correctly stated, we can no longer treat the emergency in a piecemeal sort of way. We have to establish a plan both near, intermediate, and long term to bring this crisis under control.

Again, I am grateful to the Senator for bringing the committee here, in addition to the Members of Congress that he has indicated will be presenting statements for the record.

Congressman Al Quie will be putting a statement in the record, and and he is represented today by Roger Johnson from his staff, who I believe will make a statement in his behalf.

Again, Senator, thank you very much.

[The prepared statement of Representative Frenzel follows:]

99-740—77——9

PREPARED STATEMENT OF HON. BILL FRENZEL, A U.S. REPRESENTATIVE IN CONGRESS FROM THE THIRD CONGRESSIONAL DISTRICT OF THE STATE OF MINNESOTA

I am extremely grateful to Senator Hubert Humphrey for bringing this distinguished Committee to our state to get a first hand understanding of the severe energy problems facing this area. Minnesota happens to be at the end of the fuel distribution network, and, without government intervention, our experience has been that we are one of the first areas to be cut back in any supply crunch such as that which we are presently experiencing.

Until recently, the Administration's response to the growing crisis has been less than vigorous. Restrictions on the importation of fuel have been removed but on the whole the response has been rather disappointing. We had been treating an immediate crisis as though it were a vague future problem.

Until the last few weeks, however, since Deputy Secretary of the Treasury Simon has been placed in charge of the White House Oil Policy Committee, things have begun to move.

On May 10th, Mr. Simon put into effect a voluntary program of fuel oil allocation designed to put product back into the hands of independent dealers. A workable allocation system is critically important to states like Minnesota which are on the "end" of the pipeline.

The voluntary system of allocation is not working as well as hoped. The Oil Policy Committee has scheduled hearings for June 11 on the effectiveness of the voluntary system, and I look for imposition of some mandatory controls under the new Stabilization Act shortly thereafter.

We also need to encourage the construction of new refinery capacity in this country. I am pleased to see that a number of refiners have announced plans to expand their facilities. This development needs to be encouraged, as does better distribution and storage facilities.

I am also a strong advocate of the trans-Canada pipeline. It makes more sense to me to bring this new supply of crude oil into the Midwest which is an oil-deficient area rather than into the Pacific Northwest which appears to be in a far more favorable position. Unfortunately the Canadian government has expressed little interest in the plan and the prospects for such a pipeline are not particularly bright at the moment.

While we are working on the supply problem, we should also be prepared to reduce fuel consumption in a fair and rational manner. I have urged both the Treasury and the Department of Transportation to carefully consider the advisability of adopting a temporary mandatory reduction in speed limits and the possibility of using the tax mechanism as a means of encouraging the purchase of smaller cars. Unless the supply situation becomes more critical than presently anticipated, gas rationing should be considered only as a last resort.

Taken together, even this kind of a comprehensive approach to the oil energy shortage will require some belt tightening and sacrifice on the part of all of us for the next few months and years. But if we can increase supplies, insure equitable distribution of that supply and encourage reduced consumption, the chances of riding out the current crisis are good. Concurrently, of course, we must give a strong priority to developing alternate energy sources. I expect that this hearing will help bring us closer to these goals.

Chairman HUMPHREY. Thank you very much, Congressman Frenzel. You will be interested to know, of course, that most of us, I think, from the Midwest are sponsors of amendments or legislation relating to the trans-Canada pipeline. Senator Mondale and myself in the Senate along with others are on that amendment. We have the belief that this is necessary. It is not an effort to block other developments but an effort to get our fair share. Roger Johnson is here. Roger Johnson represents Congressman Quie.

Mr. Johnson, would you like to just come forth, and I know you would like to make a brief statement.

Opening Statement of Representative Quie, Presented by Roger Johnson, District Representative for Representative Quie

Mr. Johnson. Mr. Chairman, rather than reading the entire prepared statement, I think perhaps I could just read the last couple of pages which summarizes it quite well, I think.

Chairman Humphrey. Thank you.

Mr. Johnson. I would like to express Congressman Quie's appreciation first of all for this opportunity, and the Congressman hopes that when the Oil Policy Committee conducts its reviews of the voluntary fuel allocation program early this month, that the mandatory program be substituted for the voluntary program.

To move on, he also expresses concern about the situation of farmers and he says the No. 1 preference that has been given to farmers and others involved in food production under the voluntary fuel allocation program should be continued.

He also applauds the administration's steps to provide a system for reporting farm shortages of gasoline and diesel fuel with accompanying procedures to alleviate such shortages. Plagued already with heavy spring rains and delayed planting, farmers can ill-afford any further delays due to fuel shortages. They should not hesitate to report any such shortages to their local agricultural and stabilization conservation service officers. Farmers can help a great deal in combating current shortages also by using voluntary fuel conserving measures with tractors, trucks, and other machine-driven equipment.

Finally, I should like to turn to the subject of the Alaskan pipeline to tap the immense supplies of crude oil on the North Slope. The Department of Interior contends that construction of a pipeline across Canada to the Midwest would take longer to build, have similar environmental dangers and create problems with our Canadian neighbors; however, Secretary Morton also said within a short time, rapidly increasing demands for oil from Canada's western provinces will soon equal or exceed Canadian production. That could mean an early end to Canadian exports of oil to the oil-starved Midwest. It is Mr. Quie's belief that the Midwest is in dire need of oil supplies now and he favors a pipeline across Canada.

An arrangement should be made for us to secure additional supplies from them while the pipeline is being constructed and their oil needs could be partially met from Alaskan sources after it has been constructed if expected increased demands in that country should materialize.

Also important are the environmental considerations. We cannot afford to haggle in the courts or in Congress much longer. We do have the safeguards of the Environmental Policy Act, which will be followed in the construction process.

Again, Mr. Chairman, let me thank the subcommittee for the opportunity to submit this testimony and I will submit the balance of the statement for the record.

Chairman Humphrey. Thank you.

[The prepared statement of Representative Quie follows:]

PREPARED STATEMENT OF HON. ALBERT H. QUIE, A U.S. REPRESENTATIVE IN CONGRESS FROM THE FIRST CONGRESSIONAL DISTRICT OF THE STATE OF MINNESOTA

Mr. Chairman, it is highly appropriate that this hearing by your distinguished Subcommittee be held here in the heart of the Upper Midwest for no other area of the country is as hard hit by the current energy shortages as is Minnesota. I appreciate very much the oppoortunity to submit a few brief observations.

We have a way in this nation of expecting science and technology to immediately alleviate any crisis that exists; however, again our foresight has been proven faulty and the signs were not adequately read about the forthcoming energy crisis. We must do everything we can to alleviate the crisis as soon as possible. Unfortunately, most of the solutions put forth are for the long range.

It is plain that the nation needs more refinery capacity. I am told that not a single new refinery has been constructed during the past three years. Existing refineries are working overtime to increase fuel supplies; however, demand sharply stimulated by the introduction of anti-pollution devices on automobile engines is increasing faster. Although the President acted properly in suspending mandatory oil import quotas, this will have little impact if the refineries are unable to turn out more product. Also, it is interesting to note that the price of Mid-East oil has climbed sharply since the American crisis became known, leaving little downward pressure on domestic fuel prices.

Also, increased oil imports at coastal ports do little to help Midwestern states like Minnesota where we are so heavily dependent upon Canadian crude oil, supplemented by limited North Dakota supplies.

The real danger right now is that customers will order beyond their needs and try to hoard gasoline against the threat of rationing. It has been said by one major oil company spokesman that if everyone reduced his use of gasoline by 10%, the crisis could be avoided and there would be no need for any system of rationing.

I believe we need right now a strong, government-encouraged program of public education to encourage motorist cooperation in reducing gasoline usage. Secretary of the Interior, Rogers C. B. Morton recently recommended nine steps that could produce large savings in gasoline without seriously disrupting family plans. He pointed out that 70% of all gasoline is used by automobiles. Here are his suggestions:

1. Plan vacations and camping trips closer to home;
2. Use trains, buses or airplanes on long trips rather than automobiles;
3. Use automobiles only for necessary trips;
4. Limit the use of auto airconditioners and other fuel consuming accessories;
5. Drive 10 miles below the speed limit on all super highways;
6. Place greater reliance on small cars, particularly by two-car families;
7. Use mass transit systems more extensively:
8. Walk or ride bicycles on short trips;
9. Keep automobile engines properly tuned and tires properly inflated.

Speeding and "jack rabbit" starts are two of the most wasteful, but commonly observed practices that are contributing to this shortage. If these suggestions were followed, the result would be to save money for the motorist, promote highway safety, and assist in cleaning up the environment. I notice also that teenagers seem to be continuing their cruising around city streets while farmers, contractors, schools, and other businesses and institutions are faced with inadequate fuel supplies. It seems to me that parents could assume some responsibility by restricting their children's use of the family car. Another recommendation would be for the states to reduce the speed limit on all their highways.

I would hate to see this nation undertake a program of gasoline rationing with all the hoarding and Black Market conditions that always accompany such a step. With just a modest amount of motorist cooperation, we can get by the current seasonal crisis and buy time for longer range solutions, such as the construction of the Alaskan pipeline and new refineries.

I was glad to see the Administration move to utilize the authority Congress has given the President to establish a system of priorities for allocating petroleum products in short supply. The voluntary fuel allocation program recently announced by the U.S. Office of Oil and Gas, Department of the Interior, now is operative; however, it comes too late for several hundred independent dealers that already have been put out of business in Minnesota and elsewhere. The damage has been done and the scant amount of competition that exists in the oil industry as a result of these independents has been sharply curtailed. The danger of the nation being dependent upon 14 or 18 major companies for its fuel supplies is apparent.

When the Oil Policy Committee conducts its review of the voluntary fuel allocation program early this month, I hope and I would recommend strongly that a mandatory program be substituted. Such a program should make specific provision for supplying independent gasoline dealers and retailers and permit those who have been forced to close their doors to go back into business.

The Number One preference that has been given to farmers and others involved in food production under the voluntary fuel allocation program should be continued. I also applaud the Administration's steps to provide a system for reporting farm shortages of gasoline and diesel fuel with accompanying procedures to alleviate such shortages. Plagued already with heavy spring rains and delayed planting, farmers can ill afford any further delays due to fuel shortages. They should not hesitate to report any such shortages to their local Agricultural and Stabilization Conservation Service (ASCS) offices. Farmers can help a great deal in combating current shortages also by using voluntary fuel-conserving measures with tractors, trucks and other machine-driven equipment.

Finally, I should like to turn to the subject of the Alaskan pipeline to tap the immense supplies of crude oil on the North Slope. The Department of the Interior contends that construction of a pipeline across Canada to the Midwest would take longer to build, have similar environmental dangers and create problems with our Canadian neighbors; however, Secretary Morton also said that within a short time rapidly increasing demand for oil from Canada's western provinces will soon equal or exceed Canadian production. That could mean an early end to Canadian exports of oil to the oil-starved Midwest. It is my belief that the Midwest is in dire need of oil supplies now and I favor a pipeline across Canada. An arrangement should be made for us to secure additional supplies from them while the pipeline is being constructed and their oil needs could be partially met from Alaskan sources after it has been constructed if expected increases in demand in that country should materialize. Important as are the environmental considerations, we cannot afford to haggle in the courts or in Congress much longer. We do have the safeguards of the Environmental Policy Act which will be followed in the construction process.

Again, Mr. Chairman, let me thank the Subcommittee for the opportunity to submit this testimony.

Chairman HUMPHREY. The full text of the statements referred to in my opening statement will be included in the record at this point.

[The statements follow:]

PREPARED STATEMENT OF HON. WALTER F. MONDALE, A U.S. SENATOR FROM THE STATE OF MINNESOTA

Mr. Chairman, in the three weeks since the President announced a voluntary allocation plan for gasoline and other petroleum products, we have all hoped that this plan would produce quick results. In spite of the grave reservations which I and others have held regarding the anti-competitive nature of such a voluntary plan, we felt a strong need to get adequate supplies to refiners and dealers and others facing supply problems. We have given this voluntary plan a decent interval during which to prove its worth.

Unfortunately, there are many indications that the voluntary plan simply is not working. In our state, over 150 independent service stations have closed, and the number that have been able to reopen since the voluntary plan went into effect has been small. A significant number of major Minnesota trucking firms have been told that their fuel supply contracts have been terminated, and some of them have been unable to negotiate new contracts. Major oil suppliers, including Gulf and Sun Oil have indicated their desire to pull out of the Minnesota market, and are now staying in the state on only a temporary basis.

But perhaps most damaging, farmers in Minnesota—and elsewhere throughout the Midwest—simply are not getting the fuel supplies they will need throughout the summer and fall if we are to avert major price increases in food supplies.

Just last week, I received a telegram from the President of Midland Cooperatives. Midland owns a refinery in Cushing, Oklahoma, which has a crude oil refining capacity of about 19,000 barrels per day. Yet this refinery for months has been unable to operate at full capacity because of their inability to obtain crude oil. They expected that the voluntary allocation system would help, but thus far it has produced no results.

If the voluntary allocation system is to work at all, it should be working for Midland Cooperatives. Here is a supplier of farm families—which, according to the allocation guidelines should be getting top priority—which for three weeks has been unable to translate public assurances of support into firm commitments.

This is a situation which must not be allowed to continue. We cannot have farmers, municipal governments and transit and trucking companies unable to obtain the vital fuels they need to continue operation in our state and other states experiencing supply difficulties.

This problem, of course, is not a new one. As long ago as last September, I wrote to the Office of Emergency Preparedness warning of a shortage in fuel oil during the 1972–73 winter. Their response, as has continually been the case, was to downplay the importance of the situation. Additional letters and telegrams in December and January produced no results. On February 15th I sent a telegram to President Nixon, requesting him in the most urgent terms possible to use the allocation powers which I believe he possesses under the Defense Production Act.

The response to this telegram was perfunctory. As many people predicted, the fuel oil crisis of this past winter quickly began to change into a gasoline crisis this spring. Still, government and industry officials continued to tell us that there would be no major problems over the course of the spring and summer.

Once again, they have been proven wrong. Once again, we have seen the independent segment of the petroleum industry hit hardest—just as they were last winter. And once again, we should ask why this is being allowed to happen.

As occurred this past winter, the major oil companies have continued to use the shortage situations which they themselves have helped create as the excuse to force the independent segment of the industry to its knees. As the Federal Trade Commission recently stated, there is the strong possibility "that major oil company control of refinery capacity and pipelines has contributed in a major way" to the shortage of gasoline we are now experiencing. To those in the industry, this should come as no great surprise.

In addition, there have been indications in recent weeks that the Administration is preparing to relax still further the price controls ostensibly put on the industry in March. Under these controls, oil companies are permitted to raise prices up to an average of 1.5 percent if the increases can be justified on the basis of increased costs.

Yet, under this seemingly stringent guideline, prices for fuel products have soared—and so have oil company profits. In April, wholesale prices for gasoline jumped an incredible 13.8 percent, a yearly rate increase of 165.6 percent. Also, retail prices of gasoline and motor products rose at an unadjusted rate of 1.5 percent or an annual increase of 18 percent.

And while these price increases are occurring, oil company profits are soaring Even before the huge price increases of April, oil industry profits for the first quarter rose by almost 30 percent. Some of the individual increases ranged as high as 49 percent and 52 percent.

So the situation we find ourselves in in Minnesota is one in which the independent segment of the industry is being choked, farmers and governmental units are unable to get adequate fuel, and the major oil companies are reporting record profits.

Just yesterday, we began debate in the Senate on legislation to impose a mandatory allocation system. I believe that the time to plan for this type of system has come, and that only strong measures will work to ensure that farmers, governments and other consumers have adequate supplies over the coming months and that prices for fuel products are kept down.

In this regard, I wish to praise the leadership which you have given in this area, Mr. Chairman, and the work which you have done in heightening public awareness of the severity of the current situation and the need for quick remedial action.

We need this action now at the Federal level—and I am confident that we will get it.

PREPARED STATEMENT OF HON. JOHN A. BLATNIK, A U.S. REPRESENTATIVE IN CONGRESS FROM THE EIGHTH CONGRESSIONAL DISTRICT OF THE STATE OF MINNESOTA

I appreciate the opoprtunity to be with you today to talk about a problem of major consequence to those of us in the Midwest, the fuel crisis.

There are those who say "crisis" is not a good word, who point out forecasts of shortages in the 1920's, the 1930's, and again after World War II which turned out to be alarmist cries of public speechmakers.

However, it has become apparent in recent months that, based on the world oil situation, the startling changes in prediction and experience in the last 8 years and the circumstances of this last winter, that we are not facing a temporary fuel shortage which can be resolved simply or quickly. The Midwest was particularly hard hit by the fuel shortage which became apparent with the November freeze and increased in severity as the winter progressed. Other warmer parts of the country suffered some discomfiture which could be remedied by donning a thick sweater, but in northern Minnesota, temperatures plunged below zero for days while homes and schools were without heat.

Now we face an extension of the problem as summer approaches and the demand for gasoline increases. Rationing has already become a common practice across the State and predictions are being made that many vacationers will be forced to stay home because gasoline is either unavailable or too expensive. Owners and operators of recreational facilities are beginning to worry about the peak vacation season this year and the implications of the gasoline shortage for the summers ahead.

The President's long-awaited energy message issued on April 18 offered only crumbs to an energy-hungry Nation. He removed the quotas on oil imports and suspended the direct control over the quantity of oil which can be imported, a move taken too late after the need had become critical. He also proposed that new sources of natural gas not be subject to price regulations—an action which was also long overdue. In the crucial areas of research and conservation, only a small increase of $130 million over 1973 was requested with an emphasis on voluntary participation by industry and the public. The President did not act to resolve the energy shortage, he reacted to a situation whose symptoms had been visible for a number of years.

We realize now that, to a large degree, the energy crisis is largely a result of the Government's failure to plan ahead, to admit the reality of the facts as it became apparent, and to take the necessary steps to alleviate the shortages as they began to occur.

We cannot ignore this year's energy shortage on the theory that it is a quirk of weather and circumstances which will be taken care of by next year. The oil crisis is a reality that compels urgent action.

And if we started today to increase our supply, there is no realistic way that we could make the situation substantially better in less than 4 years. Any major action taken today to find new sources of energy at home or to import more from abroad involved either complicated problems or at least 4 years to complete.

A domestic refinery takes 5 years from construction to operation and no domestic refineries are now under construction.

The Alaska Pipeline, if started today, would take at least 3½ years to build, would provide only 25 percent of our reserve, and would be exhausted in 4 years.

We currently obtain about 30 percent of our oil from unstable Middle Eastern countries which continue to manifest increasing anti-Americanism. Even if we could solve the intricate problems of international relations, the United States doesn't have enough tankers or deep water ports to accommodate a large supply of oil.

Scientists estimate we are at least 12 years from effective use of nuclear energy and 25 years from development of both solar and geothermal energy.

The passage of the clean air amendments and strip mine regulations effectively prohibits the full use of our richest resource, coal, until new methods of use can be developed. This means we know the situation can only get worse in the next several years. Currently, the indications are in Minnesota that the gasoline supplies will be about 10 percent short of anticipated needs by the end of 1973, approximately 227 million gallons less than the anticipated demand. But even this is assuming Minnesota will be given its fair share of the fuel available.

Can we realistically assume as the vacation time reaches fever pitch and the pinch tightens for the available gasoline that Minnesota at the end of the pipeline can expect to receive its fair share? I think not.

One hundred and sixty independent service stations have closed in Minnesota as a result of the shortage, and by yesterday, all major companies in the State had started to allocate 10 gallons per auto. Tractors sit idle in the field and Government agencies and emergency facilities are facing shortages which threaten curtailment of vital public services.

Prices have already begun to edge upward with competition limited and supplies short. The best current estimate is that gasoline prices will double in 2 years and triple in 5 years. Several independent petroleum dealers testifying before a Senate subcommittee hearing this week said that gasoline is indeed available to them—at exorbitant prices through a developing black market.

President Nixon, on May 11, asked the oil industry to regulate itself by fair apportionment of gasoline. Since that time, Minnesota has been waiting in good faith at the end of the pipeline for its fair share.

Obviously, the system isn't working.

Right now, motorists are beginning to experience minor inconveniences as their neighborhood stations close, are forced to curtail hours of operation or ration gasoline until a new supply of gasoline arrives. But wait until fourth of July weekend when families pack kids, picnic baskets, and fishing poles in the car and head for the nearest lake or woods only to find they get no further than the closest empty gas station.

In addition, it is highly likely that Nixon's voluntary controls are causing a violation of the antitrust laws which were established to preserve competition. There is evidence that the controls are working to the disadvantage of the independent dealers and, in fact, are driving out the competition.

Several measures can be taken immediately to lessen the pressure for our existing energy resources.

The President could use the authority which was given to him by Congress in the Economic Stabilization Act to immediately impose a system of mandatory allocation of gasoline.

Just yesterday, the Senate began consideration of a bill with the leadership of our own two Senators which would strengthen the President's authority to impose rationing in case of dislocations in the allocation of fuel.

Although this won't increase the available supply, it will make certain that Minnesota gets its fair share of the shortage.

In addition, we should heed the advice of the State director of civil defense, James Erchul, who points out we can save up to 15 percent in gasoline usage in the State this year through four conservation measures—driving slower, using public transit, car pooling, and foregoing unnecessary trips. This, in fact, is the only way to immediately increase the supply of fuel in Minnesota.

In February, when the critical nature of the energy shortage became evident. I set up an energy subcommittee of my Public Works Committee. We have scheduled hearings for 3 days in June on specific legislation dealing with the construction of offshore bulk cargo transshipment facilities and plan to hold hearings throughout the summer on the supply and demand situation which is having such an immediate impact on Minnesota.

It's long past time that we faced facts and took the appropriate policy actions to insure an adequate source of energy in the years ahead.

PREPARED STATEMENT OF HON. JOSEPH E. KARTH, A U.S. REPRESENTATIVE IN CONGRESS FROM THE FOURTH CONGRESSIONAL DISTRICT OF THE STATE OF MINNESOTA

Mr. Chairman, I appreciate the opportunity to participate in today's hearings on the national energy crisis since no setting could be more appropriate. The fact is that no one area of the country is more aware of the petroleum shortage than our own state of Minnesota. I recall very well that many Minnesota representatives in Congress have called for "immediate withdrawal" in the past. Frankly, I had no idea that it would be Sun Oil Company and Gulf Oil Company that would heed our plea. Fortunately their plans to leave the state seem temporarily halted by the voluntary allocation plan which raises the possibility for Minnesota achieving "peace with honor" with the major oil companies.

Not only have oil companys' marketing policies had a drastic effect on Minnesota, but the very nature of the state leaves us in a position to be severely damaged by an energy shortage. With Minnesota's diversity of agriculture and industry, rural and urban, reliance upon transportation due to the geographic situation (and I might add long and cold winters) every problem associated with the energy crisis is well known right here.

These hearings today are vital in understanding the background and scope of the problem all American's face today and I am pleased to be a part of them.

It seems clear to me that a good portion of the blame for the shortage facing the petroleum consumer today can be attributed to a four-year record of inaction by the Nixon Administration. I also believe there are enough disturbing facts concerning the marketing and production practices of the major domestic oil companies to warrant the investigation for possible improper and illegal activities by the Anti-trust Division of the Department of Justice and the Federal Trade Commission's Bureau of Competition.

I am pleased to report that in response to my requests on the subject both Justice and the FTC have expressed extreme interest in questionable oil company practices.

While the possibility of remedial legal action against the oil companies has been suggested, it is no answer to the shortage we face today.

For years many of us in both the House and the Senate have called for increased crude oil imports (particularly from Canada) in our respective bodies, and in meetings with Administration advisers.

The fact is that this shortage should be no surpries to the Administration since I and others have repeatedly warned them of the consequences of their import policy and lack of action.

For the past four years I have conferred on several occasions with General George Lincoln (then head of the President's oil import policy group). Mr. Eugene Erickson of the independent Northwestern Refinery in St. Paul Park has participated in some of the discussions.

We have pleaded for a change in policy to avert what we viewed as the serious possibility of a shortage. While it was my judgment that General Lincoln and others from his policy group appeared to agree with our analysis and predictions for the future: they were unable to act expeditiously and on a timely basis because the Administration's policy seemed to dictate inaction.

In fact, four years of discussion prompted no action—only the shortage we predicted.

As I mentioned earlier the major oil companies must share a portion of the blame for the present shortage. How else can one explain the fact that while independents are being forced out of business, the major oil companies are opening up their own "independent" gas stations.

In addition, the plea that the shortage is due to a nationwide shortage of refinery capacity just doesn't wash when the Office of Emergency Preparedness says that refinery operation "plunged" the last weeks of March and the first week of April.

OEP points out that refining levels were at the lowest point of any period since early December, 1972—while the oil companies claim to be at peak production.

While we can call for unlimited allocations of oil imports, OEP points out that it dosen't do one bit of good if the oil companies refuse to increase production to a level closer to operation capacities. And 88.7 percent of capacity, which was the case the first week of April, raises a lot of serious questions about peak production.

Looking at the existing stop-gap voluntary allocation plan it seems clear that a detailed analysis would be premature. Of obvious importance in any discussion is not only the fairness of the plan, but the reaction of the major oil companies in voluntarily complying with the plan. The first responses are encouraging due to the "club in the closet" aspect of the plan.

I must however caution this group and the Administration from assigning too strictly drawn, rigid priorities of allocations to any plan.

Certainly we are not going to sit around watching the commuter speed down the highway while our police cars are halted due to a lack of gasoline. Likewise, no reasonable man relishes the prospects of watching our farm crops rot in the field while combines and harvesters stand idle due to a fuel shut-off.

It is clear, very clear, that we are all in this together.

We must, I repeat, must avoid any tendency to pit one gasoline consumer group against another in this crisis.

Certainly we cannot expect consumers to purchase agricultural products if they do not have the gasoline to get to their job or get to the market. Likewise, a perfectly harvested crop serves no purpose if the tracks to get the crop to market don't have the fuel to operate.

I do not think my fears in this area are unfounded. I catch the hint of a "me-firstism" in the air—the kind of reaction that is found when any needed good is in short supply. The crisis we face today could be made worse if we are forced into an adversary situation by various groups over limited fuel supplies. No purpose could be served by a priority list that leaves no percentage of petroleum products for non-priority items.

I most earnestly urge this group to avoid the pitfalls of a rigid allocation system that would create far more problems than it would solve and would turn our attention away from the sources of energy crisis by creating factional bickering.

That would create far more problems than it would solve.

Thank you, Mr. Chairman.

PREPARED STATEMENT OF HON. WILLIAM S. MOORHEAD, A U.S. REPRESENTATIVE IN CONGRESS FROM THE 14TH CONGRESSIONAL DISTRICT OF THE STATE OF PENNSYLVANIA

Mr. Chairman, I wish to thank this committee for the opportunity to present this statement today.

The energy issue is of paramount concern to this country. For the past decade we have been consuming energy faster than it has been produced. This of course, is not news. What is "news" is the characterization of the current state of affairs as an "energy crisis."

Perhaps we are approaching a crisis and perhaps we are not. It depends on how we view the importance or necessity of various energy sources.

For example, it is generally agreed that the total world energy resources of all kinds are sufficient for present and projected world needs for the indefinite future. Yet ,there are shortages of certain types of energy producing materials and there are geographic dislocations of supply. The most immediate example of the supply dislocation is the vast oil reserve in the Middle East. In terms of specific shortages I need only refer to the present gasoline shortage. However, this shortage is not the result of a lack of petroleum. It is the result of poor allocation of refinery capability and should not be viewed as a direct result of an energy resource shortage.

I do not have all the answers to these problems; nor am I conversant with all the questions. I do, however, want to pose some broad thoughts for your consideration.

Basically, we must confront a short range energy problem, a medium range energy problem and a long range energy problem. In the short range we have a gasoline shortage may be and we faced with shortages in fuel oil, natural gas and heating oils. We will not run out of these fuels in the short range, nor will the shortages be felt in all areas or at the same time. The reason for the short range problems basically stem from the misallocation of fuel resources and lack of foresight on the part of the government. The recent decision to lift the quotas on imports of foreign oil will relieve that shortage of the basic oil. Better planning by the domestic refinerys will relieve the shortages of various petroleum products such as gasoline. These are only short range solutions to the short range problems however. Another short range energy problem is an electric power shortage. These shortages result from poor planning of power plant capacity, problems involving the placement—or siting—of nuclear power plants, and inadequate reactions to the necessity for environmental controls. The problem of electric shortages will take much more time and money to solve.

The medium range problem centers primarily on the imported oil questions. At the present time, the United States is importing vast amounts of oil from the Middle East. The known oil reserves in the Middle East are sufficient to supply the U.S., Europe, and Japan for many years. However, many people are concerned about our reliance on this Middle East oil. This concern in based on political and economic considerations. Some feel that the Middle Eastern oil producing countries can withhold their oil for purposes of political blackmail in order to force the U.S. to change some of its foreign policy positions, especially our position on Israel. Thus far, however, the Middle Eastern oil producing countries have shown no tendency to couple the supply of oil with other foreign policy considerations, and it must be recognized that the major oil producing countries, Saudi Arabia and Kuwait, have carefully avoided the Israeli conflict for the past twenty years. A third major oil producing country, Iran, has generally been very friendly with the U.S. and does not consider itself a part of the Arab block. The only oil producing country which could conceivably attempt to pressure U.S. policy by withholding supplies in Libya, but thus far their pumping capacity is low and their policy has been one of using the payments received for the oil to finance various revolutionary activities. Thus, even Libya should be shipping their oil for the near future.

The real problem with imported oil is economic. The vast expenditure for this oil seriously harms the U.S. balance of payments. At present, we have an agreement with the Organization of Petroleum Exporting Countries (OPEC) which runs until 1976. Thus, for the next three years we are fairly certain about prices for this oil. However, when the current agreement runs out, we may be faced with substantially higher prices, or other economic demands such as local ownership of the middle eastern refinerys.

We should use this three years period to develop a comprehensive energy policy for the U.S.

In this regard, I feel we should take serious note of the recent OPEC attempts to breach the current agreements. This should be a clear signal to move quickly toward a comprehensive policy.

In the meantime we should use in the imported oil so long as it is relatively cheap, and not be stampeded into uncontrolled development of the remaining domestic reserves until we have developed an adequate policy for controlling the use of these reserves.

We must also recognize that U.S. coal supplies are now considered adequate for 400 years of use.

The main problem, however, is that eventually the U.S. will be faced with a serious energy shortage crisis. This crisis can be averted if the government acts now.

There are three major considerations. The first is price. This country needs adequate supplies of energy at prices it can afford. The second is environmental. We need an adequate supply of energy which can be used in a manner that does not pollute the environment and which can be extracted from the ground in a manner which does not destroy the environment. The third is of course supply. We need an adequate supply of energy of all types. In terms of pollution, we must strive to reduce the amount of energy pollution to the lowest possible level. However, when we do this we must realize that reducing pollution increases cost. As we have seen, the pollution control measures for automobiles are expected to raise prices from $100 to $200 per automobile. The same is true for pollution control measures on furnaces steel plants, power generating stations, etc. There may have to be some trade offs in this area, as it is estimated that while it is possible to cut 90–95% of the current pollution at a reasonable price, the cost to end totally all environmental pollution from energy production will be prohibitive. Thus, we must decide if it is worthwhile to spend excess amounts of money to reduce the final five to ten percent of the residual pollution.

Adequate supply takes on three asects. The first is to develop in the most controlled manner the existing and future sources of energy. The second is to develop the best methods to conserve the use of energy. The third is to allocate the various types of energy in the most useful manner.

In terms of developing the existing and future sources of energy it will probably be necessary to allow expanded exploration and drilling for oil on the continental shelf. The energy message delivered by President Nixon emphasizes this point. However, the President's program for drilling at sea does not include sufficient funds for controlling pollution and policing the safety measures necessary for this exploration. The oil spill in the Santa Barbara channel in California shows the absolute necessity for such precautionary measures before the drilling is allowed to expand. We should also look carefully at the prospects of developing the oil shale deposits in the West. At the present time, it appears that drawing the oil from these shale deposits is too expensive, but the oil industry is researching this problem. The President's message also encourages the development of this oil shale. However, there is nothing in the message which describes the controls necessary to insure that the oil produced on this government owned land will not result in windfall profits for the oil companies. Thus, while I agree with the basic thrust of the President's energy message, I oppose the action he wants to take until the controls on profit and pollution are added.

We must of course continue ot develop alternative forms of energy such as nuclear plants for the production of electricity. Solar energy and geothermal energy are additional possible sources of power. These sources can be developed if enough money is available for the required research. At the present time only .015% of our gross national product is devoted to energy research. I think it is a gross misallocation of resources. We should be spending far more for this basic research so as not to be forever tied to the use of fossil fuels which will eventually be depleted.

We must also conserve the supply of energy we already have and will develop. This conservation of energy does not only mean turning off unneeded light or driving economy cars to conserve gas, it also means designing office buildings and factories so as to cut the amount of energy needed to heat and cool them. For instance many new office buildings are constructed with exteriors that are almost all glass. This generates enormous amounts of heat into the building in the summer, causing the need for high power air conditioning units which need considerable supplies of electric energy. We should be considering building design which cuts the need for this inefficient system whereby the structure is designed to generate heat causing the need for airconditioning. By the same token, we should make use of the best available insulating materials so as to conserve the interior heat during the winter months that is lost through insufficient insulation of these same buildings. At present there are insulation materials in limited use which will keep a thermos of coffee hot for 50 years. These materials were designed for the space program, yet no one has yet tried to use these developments in the building industry.

Finally, we must allocate the existing resources in the best possible manner. Natural gas is a clean burning fuel. It should be restricted to use in homes and small businesses. The reason for this restriction is that the home and small business owner are least able to afford the pollution controls necessary for the clean burning of other fuels such as coal and oil. At present, however, many large industries and electric generating plants are using natural gas, thus diverting it from the smaller markets. I feel that these large users are better able to afford the equipment necessary to clean the residual pollutants from "dirtier" fuels such as coal and oil, and thus should be restricted from using natural gas in large amounts.

While large oil fields have been discovered in the North Slope of Alaska, development of these fields has been curtailed due to arguments over the advisability of constructing a pipeline to deliver the oil. I am persuaded that we must explore alternative methods to this pipeline for environmental reasons.

A study done for the Department of Transportation shows that the Alaskan Railway can be expanded to carry this oil thus obviating the need for the pipeline. This solution to the Alaskan oil problem should be fully explored, as using the existing and expanded rail facilities would cause minimal environmental problems and could transport the oil at a reasonable cost. It is estimated that expansion of the existing rail facilities would cost about $2.4 billion and the annual operating costs are estimated to be $174 million.

These costs compare favorably with existing pipeline proposals. The basic rail system is already in use, and the extension of the line to the North Slope is entirely practicable. In the event that oil production from the Alaskan fields exceeds current estimates, a parallel rail line can be constructed on the present right of way for a relatively minimal increase in funds.

Such a rail system can of course be used for the transportation of personnel and other commodities. The pipeline, by its very nature, is a single use transportation network, and as a resource will diminish at the same rate as the oil it pumps. In other words, when the North Slope field is fully expended, the pipeline will remain as a useless transportation network, while a rail line will at least have a residual value.

I hope that the Committee will give serious consideration to the extension of the Alaskan Railway as a viable solution to the problem of transporting the much needed oil from the newly explored reserves.

PREPARED STATEMENT OF HON. JOHN M. ZWACH, A U.S. REPRESENTATIVE IN CONGRESS FROM THE SIXTH CONGRESSIONAL DISTRICT OF THE STATE OF MINNESOTA

Mr. Chairman and members of the committee, the Sixth District of Minnesota which I represent, is about as far on the end of the petroleum supply line as it is possible to be.

As a result of our disadvantageous location, we are the first to feel the pinch of a short supply, and we have the added dubious distinction of paying prices that are generally above the average of the rest of the country.

In addition, we are one of the most agricultural Congressional Districts in the entire Nation so we have a great need for fuel for our farm tractors, crop driers, and other production-related machinery.

Right now our area is feeling the pinch of the fuel shortage. Our office in Washington receives telephone calls almost every day from dealers or consumers who are out of fuel.

I have introduced legislation and I am pushing hard for an oil pipeline from the Alaska north slope along the Mackenzie river through Canada and terminating in the upper midwest. Such a route would put this new oil where it is most badly needed.

To ship it to the West Coast would create a surplus there and make it vulnerable to outbidding by oil-hungry and prosperous Japan.

A voluntary system of allocation, giving top priority to agriculture, has been established by the Administration and this is a move in the right direction. However, I would rest much more easily and so would my farm constituents, if this priority program is made compulsory.

I would like to insert into the Record of these proceedings a few of the representative letters we have received in our Washington office in regard to the growing fuel shortage in our Minnesota Sixth Congressional District.

ESSELMAN OIL CO., *St. Cloud, Minn.*

Congressman JOHN M. ZWACH.

DEAR JOHN: The Esselman Oil Company has been supplying Sinclair Oil products to homes and farms in the St. Cloud area for over 35 years. (Note attached picture). But as of May 31, 1973 our new franchise agreement contract with Sinclair will be canceled. (Note attached letter). As of now we service about 1,000 farm and consumer accounts in the Benton and Stearns Counties area. About 85% of our summer business is farm gasoline 50,000 gallons a month and diesel tractor fuel 25,000 gallons a month.

I would like to ask the help of your office in obtaining a supply of gasoline and diesel farm fuel so we can supply our farm customers.

Your urgent attention to this request would be appreciated.

Very truly yours,

WAYNE ESSELMAN.

SINCLAIR,
PASCO MARKETING, INC.,
Omaha, Nebr., April 5, 1973.

ESSELMAN OIL CO., INC.,
St. Cloud, Minn.
(Attention: Mr. Henry J. Esselman).

DEAR MR. ESSELMAN: On February 9, 1973, you entered into a Distributor Sales Contract with PASCO MARKETING, INC.

Under Paragraph 5 of the contract, either party is entitled to terminate the contract at the end of any monthly period upon 30 days advance written notice to the other party. Pursuant to Paragraph 5 PASCO MARKETING, INC. hereby gives you notice of termination of the contract effective May 31, 1973.

Very truly yours,

C. A. CALER.

MAY 11, 1973.

THE PRESIDENT,
The *White House*,
Washington, D.C.

DEAR MR. PRESIDENT: Tens of thousands of independent distributors and dealers are facing drastic cutbacks from major oil companies as a result of the fuel shortage.

Some of these dealers in our predominantly rural Sixth Congressional District of Minnesota, are completely out of fuel and their farm customers, who are in the process of planting record-breaking acreage, as a result of Department of Agriculture rulings, are running out of fuel for their tractors.

This is a very serious situation that could have disastrous results throughout our agricultural area.

I most respectfully urge you to take immediate steps to increase our available fuel supplies and to further provide that independent dealers will have fuel available to them in the same proportion that they received it in the past.

I cannot impress on you too strongly the urgency of this situation.

Sincerely,

JOHN M. ZWACH,
Member of Congress.

DWIRE, INC.,
Marshall, Minn., May 23, 1973.

Representative JOHN ZWACH,
Washington, D.C.

DEAR MR. ZWACH: Our Company is a medium-sized outfit that employs between 55 and 65 people during the summer with a carry-over crew of about 12. Our people usually make pretty good money; seasonal employees make from $8,000 to $14,000 a year with permanent help making about $20,000 a year. All these people, or at least a part of them will have to be laid off if we cannot get any more fuel commitments from the companies that supply us. We have always paid our bills promptly at the time they are billed. This doesn't seem to make any difference any more.

These companies have just told us they will NOT supply us with diesel fuel. We used a half a million gallons of diesel fuel last year and it was a relatively wet year. We are expecting a dry summer this year by looking ahead on future weather charts and the early start we got this spring. Our fuel needs for this year are anticipated at 600,000 gallons. Right now we have commitments for about 285,000 gallons of diesel fuel from Mobil Oil and Double O Co-op. Last year we bought in excess of 100,000 gallons from Standard Oil Company. They have told us they will not supply us one gallon this year. We bought about 70,000 gallons from Phillips 66 last year and they have told us the same. We are in the process now of sending letters to our employees telling them that if this fuel situation does not ease up, we will probably be experiencing a cutback of 10 hours a week. It is possible we will have to lay off some of these employees later in the summer in July or August. We have told them accordingly not to go out and spend a lot of money and expect a big year. As you can see, this will affect the consumer market considerably.

I understand the problems with the Trans-Alaska Pipeline System, but it is very important that this pipeline gets pushed through the Legislature. I think it is time Congress got on the ball and got something done. The environmentalists can protest all they want to, but if we don't have the fuel to run this country we will be in worse shape than worrying about the right-of-way for the pipeline being 50 feet or 300 feet. Please do what you can do to help ease this situation.

Sincerely,

JAMES A. DWIRE,
President.

KREBSBACH MOTOR CO., INC.,
St. Joseph, Minn., May 26, 1973.

Congressman JOHN ZWACH,
Longworth Building,
Washington, D.C.

DEAR MR. ZWACH: We are urgently requesting your prompt attention to the problems that we as a jobber are having concerning the gas shortage. Our supplier is Phillips Petroleum Products, 215 So. 11th Str., Minneapolis, Minnesota.

We have in the past years provided one hundred thirty farmers with their gas to plant and harvest crops. This year because Phillips Petroleum put us on allocation and have since cut us ten percent, we will not be able to fulfill these needs. Surrounded by a farming area, we feel this is most important for the farmers' livelihood. The fact that 35% of our gas business goes for farm use, proves that this hard working class of people should not be overlooked. It would be a disappointment for us and the St. Joseph area to see these crops not harvested because we could not supply them with the proper amount of gas needed.

We have spoken to Mrs. Ruth Knevel at the District Office and to Mr. Roy Anne from the State Civil Defense Office and are now urging you to take immediate action to protect the small farmer in this current situation.

Sincerely,

RAYMOND H. KREBSBACH.

Chairman HUMPHREY. Might I say now to our witnesses, I know most of you have prepared statements. We are trying to keep these statements at a reasonable length so we can have wide participation. If you feel during your testimony that you didn't include something in the prepared statement that you want to talk about—because this is wide open—we welcome, we need your guidance, frankly, from the practical standpoint of where you live and where your work is. You can talk to us openly, frankly, about the problems that you see with the majors, the major oil companies, if any; any problems that you have as independent operators, problems that you may have as users of petroleum supplies as well as suppliers of petroleum products. Give us your views on anything from the proposed increase in tax on gasoline to the conservation measures, the antitrust laws. We want guidance, and this is the most timely hearing that we could have, because the Congress in the next week, at least in the Senate, will act on programs relating to the petroleum situation, mandatory allocations, the whole overall supply situation, the Alaska pipeline. And it will move very quickly in the House. There are all kinds of actions coming up in the Congress in the month of June.

With that, Mr. Erchul, we welcome you to the witness table.

Mr. James Erchul is the director of the Office of Civil Defense, Minnesota Department of Public Safety.

May I just take a minute to compliment this man on the marvelous work that he's done on behalf of the people of this State. We have been in very close cooperation, all of us on our delegation in this State, Minnesota, and he has been sort of the frontline fighter out here for the users and suppliers in the State of Minnesota and, Mr. Erchul, we want to commend you and to thank you for your services.

STATEMENT OF F. JAMES ERCHUL, DIRECTOR, CIVIL DEFENSE DIVISION, MINNESOTA DEPARTMENT OF PUBLIC SAFETY

Mr. ERCHUL. Thank you ever so much, Mr. Chairman.

Mr. Chairman and members of the committee: My name is James Erchul. I am the director of the Civil Defense Division of Minnesota's Department of Public Safety. I am here today representing Governor Wendell R. Anderson, who is unable to participate in this hearing personally.

I would like to ask, Mr. Chairman, that my prepared statement be entered in the record in its entirety and I will just paraphrase the situation.

Chairman HUMPHREY. It will be so done, put in the record.

Mr. ERCHUL. Thank you. The Civil Defense Division has been charged with the responsibility of coordinating the State government's activity in responding to the present emergency of a statewide fuel shortage. As director of the Civil Defense Division, I have had a continuing association with this shortage since the middle of December.

When the shortage first came to our attention, Governor Anderson quickly responded by directing our division to survey the situation, determine exactly what is was all about, and recommend action that needed to be taken. As a result of the survey, State Civil Defense met with the fuel and energy task force, which has been set up some years prior to that. After that meeting, the State emergency operating center was activiated for the purpose of handling inquiries and putting together people who were experiencing a shortage with those who might have a surplus. This is the system we used then in handling the heating shortage as it came upon us through the winter.

Our difficulties really were compounded substantially when certain companies began leaving Minnesota as far as the marketing area as they could no longer continue to serve. We had first of all Bell Oil, who stopped marketing here, and Triangle Refineries discontinued entirely and dismantled their marketing operations. In addition to that, Gulf Oil and Sun Oil announced that they would be leaving January 1, next year.

To compound that, we had a strike at the Koch Refinery; and the Midland Refinery, that was supplying cooperatives here in the State was finding itself out of crude oil and had to close down about midwinter; so we had, going into the spring situation of transportation fuels, quite a bit of background in having gone through all of this with the heating fuels.

Now, I would like to confine my remarks at this point to the allocation system as it is and what we see as a result of the system being put into being.

Chairman HUMPHREY. You are speaking now of the Federal voluntary allocation system?

Mr. ERCHUL. Yes, Mr. Chairman, the voluntary system as it is now operating. This system, of course, came into being, as was previously stated, on May 10, when Mr. Simon testified before the Senate Committee on Banking, Housing, and Urban Affairs and unveiled what he called the voluntary system.

He further stated that the general policy direction would be vested in the Oil Policy Committee and that the day-to-day operation or administration of the program was going to be handled by the Office of Oil and Gas in the Department of the Interior.

We met with Mr. Simon and with the people from Interior who were going to implement this, talked about it with them at length, talked about our experiences in reporting to the Federal Government and getting action during the heating season. Our associations at that time were with the Office of Emergency Preparedness. Unfortunately, the President has seen fit to dismantle that operation so it appears they are not being called into this. They have a certain practiced expertise which I think would be helpful but so far we are finding them left out of the implementation of the allocation program.

Upon receipt of the information concerning the allocation program, I met with these people in the Office of Oil and Gas on May 21. My purpose in talking to them at that time was to determine first of all what role, if any, the individual States would be playing in this allocation system. I found that none had been designed; that the Federal Government was going to handle the whole thing. Now, for most States, I understand that is perfectly acceptable but for here in Minnesota, with the experience we have put together in the past few months and with the lines of communication that have been established with our congressional delegation and with our State legislators, the system that had evolved meant that a local jobber or distributor had just naturally called upon the person he thought was representing him, his legislator perhaps or he would perhaps in some cases write to his Congressman or Senator. These people then were charging those questions to us. The Governor, too, was getting many questions as he's recognized as the head of the State, so to speak, so he was the man that was being called upon.

So we established a system whereby we could respond to those inquiries, many of which were of a local nature and could be handled right at the local level without having to go even to St. Paul and, in many cases, certainly not to Washington. This served to keep from flooding the system so that we didn't have a jammed system of communication.

Now, I cite this only to show you that, in relation to that, the Office of Oil and Gas has chosen to try to field all inquiries from a single office in Washington. Our experience in dealing with OEP during the heating situation was that we were working through their regional offices. The regional office for this area is in Chicago. And even then, it was a burdensome thing that took a lot of time. We didn't always get the answers that we wanted immediately, some answers that had to be gotten in a day or even hours. At this time, that kind of system doesn't exist. The allocation guidelines indicate that they will go to field offices if the situation warrants it. We were wondering how long it would take for the situation to warrant it. As soon as the guidelines were announced, we immediately began phoning a few of the inquiries we had to Washington just to see if it was going to work, not really flooding them with all that we had but a few select ones that we thought would give them a thought to exercise the system.

We received no response at all until yesterday when they finally were able to get back to us and tell us they were working on it. At that time, we gave them a few more to work on and they told us they were going to move their office apparently to more spacious headquarters; no allusion to going into the regional offices out in the field, which they hadn't even or had not established, as far as we know. They do have some regional offices for the Department of the Interior in some of the regions. Our region is one which does have an office but the office is totally understaffed with only one man and a secretary, not able to handle all of this.

They told us in discussing it with the Department of Interior that they already had a backlog of some 900 inquiries that they were unable to handle. It was just jamming their system and nothing is happening right at this time, apparently. We have had a little bit of luck. I think it is due largely to external forces rather than their own management of the situation, however.

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Mr. Chairman, you cited two of the main ones a few minutes ago in talking about Sun Oil and Gulf and we are particularly happy about the 1 million gallons of diesel fuel that Gulf made available for use in our agricultural area. This has already got moving in some areas, it is being used already at this time. That certainly isn't the answer, though; 1 million gallons sounds like a lot to the average bystander but it really doesn't go too far in the agricultural community.

On May 23, the guidelines we had been waiting for had been printed in the Federal Register and became public information. For the benefit of our people here today, I might say I have copies of the guidelines that are available. I brought them with me. If someone would like a copy, he is certainly welcome to take one.

Chairman HUMPHREY. Those guidelines are to be printed for 30 days, isn't that correct, subject to response from parties affected thereby.

Mr. ERCHUL. That is my understanding, Mr. Chairman.

Chairman HUMPHREY. And then they can, if need be, be revised; but there is a period of time for observation, for study, and for any rejoinder that anyone might want to make.

Mr. ERCHUL. That is the understanding I have, yes.

Chairman HUMPHREY. I think it is important for suppliers and users to take a look at those guidelines right quickly, and if you have any commentary that you would like to offer, you can either send them to Mr. Erchul who in turn can present them to the Department of Interior, I believe, or is that the Oil Policy Committee?

Mr. ERCHUL. The Office of Oil and Gas and Interior.

Chairman HUMPHREY. The Office of Oil and Gas in Interior, or you can send them in to any member of your congressional delegation and we can see that they get to the proper place.

Mr. ERCHUL. I would like to cite a couple of examples just to illustrate the kind of thing we are getting in terms of inquiry or a question about the system.

First of all, one of the outstanding things that has come about in the past 2 weeks is several airports around the State are reporting cancellation of their gasoline supply, aviation gasoline. In some cases, the person supplying the gasoline is the only supplier to the small airports. In a couple of other cases, there are a couple of other suppliers and it is not a total situation. But they are reporting that they have been cancelled and the company is not going to continue to supply any longer. We have contacted the company and get mixed answers as to whether they are or are not going to supply. Some say that they are changing, the allocation program is going to make them go back to supplying; other of their executives say they know of no such idea and they are cancelling as far as they are concerned.

Yesterday, it came to our attention that a taconite operation in the northern part of the State has been cut in its diesel fuel supply. This immediately forced them to lay off 28 people yesterday and with indications they are going to have continued layoffs next week that will cripple their operation to some extent, if not totally. Their problem is directly related to the allocation program and, here, Mr. Chairman, is one of the pitfalls that we are going to experience, whether it be mandatory or other.

In that particular plant, they experienced 7 weeks' strike during the base period that the guidelines allow. Therefore, during that 7-week period, last summer, they did not use the usual amount of diesel fuel. Now their supplier is unable to obtain that amount that they need this year as he has no base history from last year of obtaining that particular amount of fuel oil. So he is unable to fulfill his obligations to them in supplying their needs for this particular period. That is the reason he has been forced to cut them back and they, in turn, have had to lay off some of their help at the taconite plant.

The State of Minnesota, itself, has been having difficulty in getting suppliers to submit bids and I have here in my prepared statement a letter from our department of procurement in the State outlining some of the problems that they have. They advertised for bids. They got no bids first of all. Then they got some bids in a re-advertisement for 30 days as opposed to a usual 6 month or full year. So they have a documented story about how they are unable to get satisfactory bids in almost all cases, no bids in many cases, and bids at a much higher price than what it used to be in many other cases.

The end of this week we took a survey of as many suppliers of petroleum products that we could in order to document the last minute attitudes and problems that they were having in managing the situation at this time. The week's survey included American Oil, Kerr-McGee, Bell Oil and Gas, whom we talked about earlier as having quit marketing in Minnesota, who still have not indicated they can come back because they do not have enough of a supply to get back into the State. The same is true with Triangle Refineries, who have left and are unable to come back. Trying to mandate an allocation program on them is certainly not going to work if they don't have it and, of course, the program will go to a higher level in the structure whereby a refinery would be directed to give them some.

In the meantime, however, we here are not getting the products that would normally have been supplied by them. Others that we talk to are Mobil Oil, Shell Oil, Skelly, Phillips, Union 76, Murphy Oil, one of what we claim is almost our own refineries because it is there in Superior, Wis. and is right close by, Northwestern Oil Co., which is a refinery here in Minnesota, Koch Refinery, the one I mentioned earlier, which is still out on strike from last winter, Gulf Oil, Farmers Union, Erickson Oil Co., APCO Oil Co. There were others we were not able to communicate with at the last minute yesterday, many of them being in meetings and things of that sort. We have talked with them in the past, however, and they reflect pretty much the same thing.

The idea we get in talking with these people is they are allocating at a percentage much lower than what the national figure seems to indicate is supposed to be available. They are in some cases down to only 80 percent of last year's supply being allocated. We are talking about the need for at least 107 percent, so we are a long ways from the 2 or 3 percent that they talk about in Washington.

Chairman HUMPHREY. I think I should say that the 2 to 5 percent that is mentioned at the Washington level is the national average of shortfall. That's what they estimate. I don't know whether we can document that at all, but on a regional basis we know it is much higher here in the Midwest, and what did you say it was, Mr. Erchul?

Mr. ERCHUL. We have been looking at between 10 and 15 percent and we feel that that is a conservative figure, Mr. Chairman.

Chairman HUMPHREY. Yes; our committee study indicates in the Midwest somewhere between 10 and 20 percent. See, the problems that we have here are much different from what they are either on the East Coast, or the West Coast, where the refineries are located, where the major pipelines are much more available. We are at the end of the pipeline and greatly dependent upon domestic oil production in this area.

Mr. ERCHUL. Yes, sir, that is absolutely it.

Earlier this week Secretary of Agriculture, Earl Butz, held a meeting in Des Moines, Iowa, where they discussed the fuel shortage, and there it was stated that the fuel supply is running just 1 to 2 percent behind the projected demand for this year. Now, sometimes when we use the percentage, we don't know what the base is. Ordinarily, people talk about last year's use but here he is talking about demand, which we consider to be 107 percent of last year. Only 1 to 2 percent would almost indicate he doesn't have the picture clearly in his mind, for the Midwest anyway; but if that is so, the allocation program certainly has not begun to work here. In Minnesota, the shortage is sometimes greater than that.

Now, the allocation thing is supposed to spread the shortage equally among all; but some areas are only 1 percent short and we are 10 to 20 percent short. The equality is just not there.

So, Mr. Chairman, I would like to express my thanks to you for bringing your hearing here to Minnesota. There are many people who want to be heard here who really don't have access to hearings in Washington. I am sure that what you hear from the people who are actually involved in this right here in Minnesota will be an enlightening story and you can take it back with you to Washington and it will be most meaningful in your discussions in the coming weeks.

Thank you once again.

[The prepared statement of Mr. Erchul follows:]

PREPARED STATEMENT OF F. JAMES ERCHUL

Mr. Chairman and members of the committee, my name is James Erchul. I am the director of the Civil Defense Division of Minnesota's Department of Public Safety. I am here today representing Governor Wendell R. Anderson, who is unable to participate in this hearing personally.

The Civil Defense Division has been charged with the responsibility of coordinating the State Government's activities in responding to the present emergency of a statewide fuel shortage. As Director of Civil Defense I have had a continuing association with the shortage since the middle of December, 1972.

When the shortage was first called to his attention last December, Governor Anderson responded immediately by directing State Civil Defense to survey the situation to determine just how bad it was. As a result of the survey State Civil Defense met with the Fuel and Energy Task Force. After that meeting the State Emergency Operating Center was activated to handle inquiries and to serve as a clearinghouse putting together people who were short of product with those having extra supply. The situation continued to deteriorate. Governor Anderson then called the National Director of the Office of Emergency Preparedness to inquire about the kind of help the Federal Government might be able to contribute. Shortly thereafter the Governor declared a state of emergency. He then wrote to the President requesting Federal aid under Public Law 91-606. The Federal Government responded by sending a team of experts to survey the situation in Minnesota and to determine what could be done. The team was able to get the fuel suppliers to return their allocations to normal. They also located some additional product that could be purchased in Canada.

Our difficulties were compounded when Bell Oil and Triangle Refineries announced that they were going to discontinue marketing in Minnesota immediately. Shortly thereafter Midland Cooperatives, a big supplier to rural Minnesota, was forced to shutdown its refinery in Cushing, Okla., due to an inability to obtain crude oil. At approximately the same time, two major brand companies, Gulf and Sun, announced that they intended to discontinue marketing in Minnesota by January 1, 1974, and Clark Oil decided to discontinue the marketing of fuel oil. To compound the matter even further, the Koch Refinery at Pine Bend, Minn., was crippled by a strike of its employees.

In order to reduce the severity of the shortage, Governor Anderson directed all State agencies to institute conservation measures. The Governor then issued several brief public service messages asking the general public to cooperate by reducing their usage of energy. He suggested lowering thermostats a few degrees, closing off unused rooms, and reducing electrical consumption, as several means of conserving energy.

Now we are faced with the same kind of a problem in transportation fuels. This time the Federal Government is viewing it as a nationwide problem. On May 10, 1973, in testimony before the Senate Committee on Banking, Housing and Urban Affairs, Deputy Secretary of the Treasury William E. Simon unveiled the present voluntary program for allocation of crude oil and refinery products to be backed up by guidelines established by the Federal Government. He further stated that general policy direction would be vested in the Oil Policy Committee and that day-to-day administration of the program shall be handled by the office of oil and gas.

Upon receipt of that information I made an appointment to visit the Office of Oil and Gas on May 21. My purpose in talking with them was first, to determine what role, if any, the individual States would play in the petroleum allocation program and secondly, what system of communication would be followed for reporting. At that point I got the idea that the States would not have an active role in administering the allocation program and that people wishing to report violations or make inquiries could call the Office of Oil and Gas in Washington. Later on, if the load got too big to handle, reporting would be to regional offices.

Our experience in reporting to the Office of Emergency Preparedness during last winter's shortage had taught us that reporting to a regional office gave us a slow response but this idea of all States reporting to a single office in Washington would be totally unmanageable.

At any rate, even without an assigned role, we felt that our involvement in the fuel shortage thus far mandated a continued activity on the part of State Government.

On May 23 the anticipated guidelines were printed in the Federal Register and became public information. If there is anyone here who wishes a copy of those guidelines, I have some here with me today. Since the publication of the guidelines we have been monitoring the situation here in Minnesota in an effort to determine the net effect. People have continued to register their problems with our office and we in turn have passed many of them on to the Office of Oil and Gas. We also surveyed the major suppliers in an attempt to determine their action in respect to the allocation guidelines. Here are some examples of the kinds of problems that have come to our attention in the past few days:

Several airports around the State reported that their supplies of aviation gasoline from Union 76 were going to be halted.

A taconite processing operation on the iron range has had to cut back on production and begin laying off employees—28 yesterday—due to a reduced supply of diesel fuel. Their problem is related to the allocation program in that during the base period under the guidelines their plant experienced a 7 week strike. Therefore, during those 7 weeks they did not use their usual amount of diesel fuel. Now their supplier is telling them that he cannot fill their needs for that related 7 week period. Union 76 is their supplier.

The State of Minnesota has been having difficulty in getting suppliers to submit bids as evidenced in the following letter:

MAY 31, 1973.

Mr. CHARLES A. BYRLEY,
Director,
Council of State Governments,
National Governors' Conference,
Washington, D.C.

DEAR MR. BYRLEY: Minnesota's experience in bidding for gasoline and fuel oil seems to compare with what we have heard and read of other governments attempts in obtaining fuel supplies.

Bulk Gasoline: A bid for an estimated annual requirement for 263 locations—6,280,000 gallons—Firm Price. We received and awarded contracts for furnishing 198 locations:

	Gallons
Annual Basis	1,500,000
Quarterly	850,000
30 Days	50,000

Prices were up from average 21¢ per gallon to average 29¢ per gallon.

We are currently out for rebid on the balance 3.8 million gallons allowing for price escalation at time of delivery based on allocation of 80% of last years purchase.

Diesel Fuel: Bid for estimated annual requirements for 181 locations—650,000 gallons. We received and awarded bids for only 35 locations for a very small part of total requirement. Prices were up from average .145 to average .205–.06 per gallon.

Heavy Fuel Oil—#5–#6: We have been fairly successful here but prices have advanced as much as .04 per gallon—Prices Firm. We will have to rebid several locations and allow escalation prices date of delivery.

Light Fuel Oil—#2: Bids for light fuel oil seem to be our biggest problem. We have been able to obtain quotes for furnishing some of our smaller users but bids for large quantities have been unsuccessful, especially so where natural gas is the primary fuel and fuel oil standby.

As you know Minnesota also has contracts with various filling stations around the State—selling gasoline for use in State vehicles at a cents discount from posted pump prices. A large share of the "Independent" stations have cancelled their contracts but the "Major" suppliers are still honoring their contracts as established.

Yours truly,

V. S. Bruce,
Director, Division of Procurement.

Difficulty is also being experienced by some of the food distribution services in obtaining adequate fuel for transportation of processed food. It also appears that an acute shortage may develop in the propane and natural gas area about the middle of August when crop drying operations get underway.

As an example, K and T Gas Co. of 2216 East Avenue, Worthington, Minn., was advised by City Service, their major supplier, that they would no longer be receiving product from them. This means a loss of 1 million gallons to the K and T Gas Co. K and T also purchased propane from Phillips, Shell, and Skelly Oil Cos. This totals approximately 1 million gallons annually. Phillips has increased their allocation by 10 percent, Shell decreased by 50 percent, and Skelly decreased by 15 percent. This means that K and T Gas Co., is cut to about one-third of their normal requirement. The company has indicated that they have a storage capacity of 54,000 gallons and have these full at the present time. This should carry them through the next couple of months with what allocation they receive from Phillips, Shell, and Skelly. However, by the middle of August and first of September, the crop drying operations will get underway, and we have been advised that approximately 50 percent of their annual consumption occurs between the middle of August and the middle of November when crop drying operations are in progress.

This week's survey of the major supplies indicated as follows:

American Oil—Ardie Iverson

Allocating 80% of last years sales—no stations out of business.

Kerr-McGee—Sid Kraker

Will follow guidelines, but getting product is a problem.

Vickers Petroleum Corp.—(Bell Oil and Gas Co.)—Mr. Gottschak
P.O. Box 2240,
Wichita, Kansas 67201

No program of distribution arrived at, they are studying guidelines. If product is available, they will supply again in Minnesota, but lack of product is a real problem.

Triangle Refineries, Inc.—Larry McAllistor
P.O. Box 8367
2600 Nottingham
Houston, Texas 77001

Triangle will come back to Minnesota if they can get their suppliers to furnish them product. Some of their suppliers state they will not give them product unless it is mandatory to do so. They refuse under the volunteer program. He suggests that a letter be written them requesting them to again supply in Minnesota.

Mobil Oil—Mr. Richardson

Allocation is 100% of last year's sales. If additional information is wanted, contact Mr. Jaeckel in Chicago Office (312) 647–9644.

Shell Oil Co.—Jerry Johnson

Allocation is 100% of last year sales. Has not received information from Main Office on any other allocation plan.

Skelly Oil Co.—Mr. Newald

If any information is wanted on company policy, contact main office in Tulsa. Contact is Mr. Charles Smith or Public Relations Office (918) 584–2311.

Phillips Petroleum—Mr. M. H. Richmond

Phillips Petroleum is allocating gasoline on 89% of last year's volume for the month of June. Mr. Richmond indicated this was nationwide for Phillips Petroleum. Mr. Richmond indicated propane gas will be in extremely short supply through the balance of the summer and fall months. He had no explanation for the propane situation. He further indicated that company retail outlets are allocating to automobiles.

Union 76—Don Hays

Union 76 is continuing to provide product, gas and diesel, to all accounts. Accounts that had been closed will be reopened and resupplied unless credit is a problem. No further information is available on the aviation fuel situation. (Have been unable to contact anyone in authority in the Chicago Office. Everyone seems to be at a meeting for the day.)

Murphy Oil—Jim Rollins

Murphy is completely out of gasoline at the Rochester and Mankato terminals. None is available from the Superior refinery. Allocation has been set up on an 80% basis of last year, both company and independent jobbers. Mr. Rollins explained that this part of the problem is due to the fact that during the fuel shortage last winter, Murphy traded with other suppliers to make additional product available in northern Minnesota. They are now being forced to repay in like kind. Murphy has been unable to stockpile any fuel oil for this winter. For all practicable purposes have no inventory at the present time.

Northwestern Oil Company—Mr. Robert Piculell

Northwestern Refinery is operating at near capacity (80%). Fuel oil situation for fall and winter looks extremely bad. Mr. Piculell predicts that residuals will also be in very short supply.

Koch Refinery—Mr. R. Carthaus

Mr. Carthaus indicated no change in the situation at the Koch Refinery due to the strike. Because of this he was unable to make any projections as to how Koch would be able to meet their allocations.

Gulf Oil Company—Mr. Luther Moore

Gulf is continuing to dispose of their physical plant (bulk stations and retail outlets) throughout the State of Minnesota. However, are continuing to supply their distributors and jobbers at 1972 levels on a one-year basis. Mr. Moore indicated it may be necessary to institute a reduced allocation if the situation continues at its present level.

Farmers Union—Bob Ovens on Gasoline and Diesel

Farmers Union is allocating on a 92% of last year's consumption for the month of June. Diesel is being allocated at 108% of last year's June consumption. Mr. Ovens further stated that projections for July and that balance of summer are as follows: Gasoline—110%. Diesel and Heating Fuel—108%.

Farmers Union—Bob Freeberg on Propane Gas

It appears that supply of propane may be adequate to meet summer demands. Fall and winter supplies including crop drying operations will fall 25% short of last year's consumption.

Erickson Oil Company—Mr. Harold Paskey

Erickson Company has closed all stations during the night shift. As of this date they have not placed their stations on an allocated basis; rather, have restricted their hours of operation.

Apco Oil Company—Mr. Buck Robertson, Oklahoma City

Apco Oil Company is allocating at 85% of last year's consumption. This is due to loss of purchase product, and covers both gas and diesel. Mr. Robertson reported that starting last year Apco dropped a number of distributors who, because of past credit problems, were on a COD basis. Several in Minnesota have been dropped for this reason. He stated that they have been advised by their attorneys that accounts of this type are not covered under the Federal Voluntary Fuel Allocation Program, and that they would not be re-establishing these distributors.

At this time I am told the Department of the Interior is jammed with a backlog of 900 inquiries. They do not have the physical plant, the expertise, nor the personnel to handle this problem. On June 11, according to the guidelines, they will begin to hold public hearings to determine whether or not the allocation program should become mandatory. Will the Taconite plant I described earlier have to be closed until after the hearings effect a solution? Will the State of Minnesota go without fuel bids this year?

No, Mr. Chairman, we cannot meet the needs of our people with this procedure. It must be speeded up immediately.

Earlier this week, Secretary of Agriculture Earl Butz held a meeting in Des Moines, Iowa, to discuss the fuel shortage. It was stated there that the fuel supply is running just 1 to 2 percent behind the projected demand for the year. If that is so, the allocation program has not begun to work. In Minnesota, the shortage is 10 time greater than that.

Mr. Chairman, I want to express my sincere thanks to you for bringing this hearing here to Minnesota where the people who are faced with the problems will have a chance to tell their stories. Thank you once again.

Chairman HUMPHREY. Congressman Fraser, do you wish to ask Mr. Erchul any questions?

Representative FRASER. First, I want to reiterate what Senator Humphrey said, the amount of cooperation and the amount of information you have been able to supply has been really outstanding in your efforts on behalf of the State. At least from the Washington end, it has been first rate. It has been enormously useful to those of us trying to understand how severe the problem is.

I just have one principal question. My understanding is that the refineries have a limited set of options with respect to whether they are producing heating fuel or gasoline: that is, that they can shift the mix within a limited range but they can't turn from one to the other. It is a question of proportion. With respect to the gasoline shortage that appears to be evolving, do you have any notion or knowledge of the extent of the seriousness, how severe the shortage may be next winter on heating oil? We had a short fall this winter but my impression is that we must be looking to a far more severe winter coming ahead. I wonder if you would have any projections on that.

Mr. ERCHUL. Mr. Chairman, Congressman, we have looked at that very carefully and our opinion at this time is that the refineries are being pressured to produce gasoline at such a rate that I don't believe they are building up the kind of reserves that are going to be necessary. Of course, this is rather early but if we were to get an early cold spell, like we got last year, I think we would be in a very difficult situation, probably much worse than we were last year.

Representative FRASER. Thank you.

Chairman HUMPHREY. Could you indicate what the normal reserves in fuel oil are? Do you have any information, for example, from the oil industry that indicates what they would like to carry as a normal reserve, let's say, in fuel oil going into the fall and the winter?

Mr. ERCHUL. No, Mr. Chairman, I don't have that in terms of numbers. We do have some refineries that are going to speak a little later.

Chairman HUMPHREY. Yes.

Mr. ERCHUL. I am sure they could provide better figures than I could.

Chairman HUMPHREY. Do you have any indication as to what the reserves are at the present time in fuel oil?

Mr. ERCHUL. The indication so far, the only figures we have that are really available to us, and they don't talk too much in terms of reserves when they talk with us but we do have a record in the tax department of what has been shipped in this year and in terms of fuel oil, it is down at least 20 percent.

Now, whether that is something that is held in reserve or where it goes, we haven't really been able to determine but we do have that figure and that is what we are basing some of our judgment on at this time.

Chairman HUMPHREY. Congressman Frenzel.

Representative FRENZEL. Yes. Mr. Erchul, with the demise of OEP, are you now reporting your status and taking your problems to the Division of Oil and Gas in the Interior?

Mr. ERCHUL. Yes, we are reporting directly to the Washington office of Oil and Gas.

Representative FRENZEL. With the impending crisis particularly this winter in fuel oil, I know that the State of Minnesota had a legislative commission concerned with this problem. Has the State ever considered creating or asking for powers of allocation that might go beyond that which the Federal Government might establish?

Mr. ERCHUL. We gave very serious consideration to that during the previous legislative session. We had some bills in there that would give the Governor the power to make these allocations. It was determined that this isn't what the legislature wanted to do. The power does exist in time of dire emergency in the executive council. They can take that upon themselves, so we have it.

Representative FRENZEL. Thank you. Thank you, Senator.

Senator HUMPHREY. Just to wind up your presentation, Mr. Erchul, has anything really improved since the voluntary allocation program went in?

Mr. ERCHUL. Mr. Chairman, we see no improvement here. It has continued to deteriorate. I guess perhaps maybe it was the fact that people were aware of the allocation program that gave us a picture that it has deteriorated. I think it is pretty much the same really. It is just that people realized that there was some place they could report some of these things, so we have gotten many more reports of problems than we had before. For instance, we have never before had a difficulty in the taconite industry and now we see them talking about laying off people in one of those plants. I don't know if this is going to be widespread or not. We have made no determination. This just came to us late yesterday.

We also have additional jobbers that are talking to us about non-allocation. They have been down to zero and, of course, the same independent people in gasoline stations that have been forced out of business still are out and have been calling us and writing us asking what can be done now to get them back into business. It looks like it has certainly not improved to any extent at all.

Chairman HUMPHREY. I think in some of the letters that I had received, Mr. Erchul—for example, here is a letter from Minneapolis:

> We had been 41 years in the gas business for Standard Oil Co. Wouldn't you say that is loyalty? On May 1, 1973, we were informed by registered letter that our lease was canceled as of May 31, 1973. We have been in northeast Minneapolis doing business since 1932—

and so on. They said:

> Having just secured an SBA loan in January of 1973, we are most concerned how we will make our payments as the filling station is one-third of our income.

We have another one here:

> My husband has been an operator of an independent service station for over 20 years and is being forced to close because of his inability to purchase gasoline.

The mayor of the city of St. Cloud—this is one of the airports that has had difficulty.

Mr. ERCHUL. Yes, sir.

Chairman HUMPHREY. Well, frankly, they haven't been able to get a contract yet; no stable contract for supply of gas or for fuel, jet fuel or gasoline fuel.

We have another one here from out in Willmar, Minn. "Then to add to our problems, my distributor contract has been canceled as of June 30, 1973, and will be issued on a month-to-month basis." This is a gentleman that has been in business out in that area of the State for many years. A copy of the letter was sent to me by the State representative, John Lindstrom.

We have a letter here from a professor of industrial management at Georgia Tech relating to some of the complaints that he's received in the southeastern part of the country.

The Minnesota Motor Transport Association, to which you referred, Congressman Fraser—I met with them, by the way, and I guess representatives of that association are here today. Here is a letter from Mid-Continent Freight Lines, one of their members, to Mr. Carl McCullen of Phillips Petroleum. "We have had several long-distance telephone conversations with you and other Phillips Petroleum personnel in your Bartlesville office because of the fact that we were notified by Wayne Anderson of your Minneapolis office that we would no longer be supplied with diesel fuel and gasoline commencing May 1."

The village of Ellsworth, by the way, has been unable to get the kind of contract that it needs to take care of its fuel needs.

Here is another one from Minot, N. Dak., that came to my attention, the same problem of cancellation, the American Public Power Association deeply concerned over the fact that there is the inadequate allocations for municipal electric plants.

Wadena, Minn., which has been in operation since 1931 has had its contract with Kerr-McGee canceled as of June 1973.

Here is another letter from a gentleman in Minneapolis. He says "I sincerely believe but could now be mistaken that these shortages are agreed upon by all major oil companies to force independent dealers out of business and raise prices on all products."

These letters and others received by my office will be inserted into the appendix of the hearings record.

By the way, our hearings in the Joint Economic Committee have brought a good deal of evidence to the forefront that majors which have supplied independents as well as their own name-brand dealers in the past were cutting off the name-brand dealers that were independent and cutting off the off-brand operators and opening up new company-owned stations. This, of course, was further documented by Senator Adlai Stevenson in his hearings in Illinois.

By the way, Mr. Erchul, are you convinced of the figures offered by Mr. Simon and Mr. Ligon on the size of the shortage. Mr. Ligon said that the fuel shortage nationwide is only 1 or 2 percent. Now, for our record here, Mr. Erchul, what is your estimate of the fuel shortage, gasoline, diesel, and heating oils, in the Midwest or in Minnesota?

Mr. ERCHUL. Our estimate at this time, at least for Minnesota, is that the shortage is now between 10 and 15 percent and it doesn't look like it is going to improve unless some drastic action is taken by someone to level off this. If we see 1 and 2 percent in most cases in the country and 10 to 20 here, we surely need some kind of equitable apportionment.

Chairman HUMPHREY. Are you familiar with the bill that is before the Senate now, S. 1570, the mandatory allocation bill?

Mr. ERCHUL. Yes, I am, Mr. Chairman. That is the kind of thing that we feel is most necessary if we are going to get equality.

Chairman HUMPHREY. Mr. Simon of the Oil Policy Committee has proposed that States in which environmental standards on electrical utilities exceed the stringency of the Federal standards relax their rules to permit burning of fuels with higher sulfur content. Do any States of the Upper Midwest that you know of fit this category? For example, does Minnesota? And how do you feel about proposals to alleviate fuel shortages by relaxing some of the new environmental protection measures?

Mr. ERCHUL. At this point, we don't have any great problem with environmentalists as far as fuel use is concerned. They have been willing to allow the use of heavy oils and coal and we don't see that as a great problem.

Chairman HUMPHREY. What about our utilities here in Minnesota, do they have the kind of system where you can shift from gas to oil to coal?

Mr. ERCHUL. Not back to coal, Mr. Chairman. They do go from gas to oil, and one of the big problems is they are using a great deal of oil to generate electricity. We think there are some changes that could be made there. Of course, they are being held up because of environmental problems to some extent there, but that is the only area where we see it.

Chairman HUMPHREY. Have you read the story of the Federal Power Commission's authorized increase of 73 percent on natural gas at the wellhead?

Mr. ERCHUL. Yes, sir. I am familiar with that.

Chairman HUMPHREY. What is your judgment of that?

Mr. ERCHUL. It is very hard to make a judgment as the stories are so conflicting. When we talk to industry people, each one seems to have his idea based on his own industry and it is very hard to make a judgment. I would think, the way it seems to me after weighing all of the stories I have heard is that natural gas has been improperly subsidized with an unusually low price and that has made it different from the other fuels; consequently, some of our problems result from the fact that the natural gas was too attractive; and then we have these interruptable customers who are forced off of natural gas when it gets a little cold in the winter time, and it certainly compounded our problem last fall when they had to go on their secondary fuel—namely oil. Their storage of secondary fuel was almost nonexistent in some cases and they were unable to obtain their secondary fuel because it was being used up in the usual market.

Chairman HUMPHREY. What do you think about the proposed 5-percent increase in the gasoline tax or have you arrived at any opinion on that?

Mr. ERCHUL. Well, I have nothing really conclusive. My initial reaction would be that it is going to be somewhat discriminatory as far as the working man is concerned. I guess that is what it is designed to do, to force him out of his car. It seems to be somewhat regressive. It is probably a single line sales tax added onto already high prices of gasoline. I don't think that it is going to help us. It will achieve the necessary goal all right but it might put the common man on the street walking. If that is what is intended, I think it will go in that direction.

Chairman HUMPHREY. I understand the 5 percent increase in tax is designed as a fuel conservation measure primarily, not so much a revenue measure, even though it will raise about $1 million dollars; they tell me that it is essentially a fuel conservation program.

Are there not other ways that we can conserve fuel and fuel transport rather than by an increase in the tax?

Mr. ERCHUL. I would certainly believe we could do other things rather than put such a burden on people dollarwise. I don't believe people would quit driving. I think they would pay the tax in many instances, at least as long as they could. Our habits are such that we do that. Now, there are those that would go into carpools necessarily after a few weeks of that expense, and there are those that would attempt to use mass transit, which, of course, is not always available. But I think if we did other things than put a new price on gasoline we would come out as well, and we certainly wouldn't hurt the public image of conservation as much by doing so.

Chairman HUMPHREY. The price of gasoline for the motor car operator has gone up appreciably already, has it not?

Mr. ERCHUL. Yes; it has already gone up at least the amount they are talking about in tax and it looks like it is going to continue to rise, so adding that to it would really be a big burden on a person that does much driving. For those people that have enough money to go ahead and pay it, that is fine, but the average man can't dedicate that much of his budget to driving his car. He would be forced out of the gas market and that would, I suppose, make that much supply available, but I think the price would be too high.

Chairman HUMPHREY. There are means of carpooling. Some of us have even suggested that the proper use of computers could make available information for carpooling for purposes of fuel conservation; that this could alleviate some of the problems.

Mr. ERCHUL. Yes, Mr. Chairman. Governor Anderson has come forth with a statement urging the public to do that. Not trying to make anything like that mandatory but just setting some examples of what could be done. Carpooling is certainly a very important way and it could be——

Chairman HUMPHREY. And it could be done plant-by-plant, could it not——

Mr. ERCHUL. Absolutely.

Chairman HUMPHREY [continuing]. By the cooperation of management and organized labor, working by the way with local officials—like in your office, which has a very good line of communication out to all the local areas of the State. Here is where State and local leadership and organizations working with the private sector could do a great deal in terms of fuel conservation.

Mr. ERCHUL. Yes, sir, Mr. Chairman, that's the one place where we could really make hay and get something done. Industry could, for instance, give certain parking incentives to people who come in a carpool, give them free parking or give them perhaps some other type of incentive. In some places, they have gone to allowing half price for bus tokens for those people in their employ who would take a bus. Those are the kinds of things that would not be painful, and would surely solve the problem to some extent.

Chairman HUMPHREY. I think the public ought to be aware of the fact that the Government is now considering whether you are going to have mandatory allocations of oil, which will give you an equitable, fair share of the available supply as a means of really providing the fuel and the gasoline that is necessary; or whether you are going to have a system of selective discriminatory allocation on the basis of raising the tax.

Mr. ERCHUL. That seems what it looks like.

Chairman HUMPHREY. That is what it is boiling down to. I don't want to make an outright condemnation of the 5-cent tax because I think we have to study this very carefully, but I think it is quite obvious now that the choices that are being talked about within the Government are the continuation of a voluntary program, which is not working too well, doesn't seem to be at least, or to toughen it up to make that program more "workable" as they would say, or to put a 5-cent tax on to force a fellow that has to drive his car 20 miles to go to his job every morning to pay that extra 5 cents a gallon. With the automobile today with its pollution controls on it, and with stop-and-go driving, that is going to mean about another 50 or 60 cents a day for a man that drives his automobile.

It is a selective type of sales tax and I think the public ought to be aware. I want this audience and those who may be interested in this testimony to take a good hard look at it, because if the purpose of the tax is to conserve fuel, and this is what it is said to be, we ought to take a look before we put 5 cents more tax on gasoline. The price of gasoline, by the way, is basically tax anyway—by the time you get it, you are paying mainly tax. The question is whether or not you want 5 cents more tax or whether there aren't other ways that we can have an equitable allocation and distribution of the available fuel supply. I really believe that what you are seeing here is a situation where the majors are going to decide who gets the oil under the voluntary program—they are running it—and, second, if it doesn't work too well, then we are going to tax you so you won't drive your car.

Mr. ERCHUL. That seems to me the way they are looking at it right now, Mr. Chairman.

Chairman HUMPHREY. I might add that for motor transport, this also adds to the cost of everything that is transported because you cannot drive these big trucks, run this high-powered equipment without fuel, and it won't be just a tax on gasoline. When we start putting on these taxes and looking around for ways and means of raising revenue and conserving fuel, you mark my words, if they start out at 5 cents on gasoline, pretty soon it will be 3 cents on diesel and then it will be 2 cents on fuel oil, and then it will be something else; and by the way, jet fuel will obviously have to be involved because gasoline, diesel fuel, jet fuel, kerosene, fuel oil No. 2, No. 6, all of these are products of the same thing, crude oil. They all come out of the same refinery. And so the 5-cent gas tax is not going to be a gas tax alone; it is going to hit products all the way down the line and that means that every homeowner, every car driver, every single farmer, every single truck driver, every single bus, every one of them ultimately is going to be caught up in a larger and larger tax payment. Now, I think the question before the Congress and before the public is whether there is any other way that is more equitable to share in the available supplies or are we going to let the Federal Government tax us into submission and the private oil companies determine who is going to get the gas. That is what it is all about.

Mr. ERCHUL. That is the big question before us right now, Mr. Chairman.

Chairman HUMPHREY. That is why we are holding these hearings. All right, thank you very much, Mr. Erchul.

Mr. ERCHUL. Thank you, once again.

Chairman HUMPHREY. Next we have a panel of witnesses. This is a panel representing the petroleum users. First, Mr. Cy Carpenter, president of Minnesota Farmers Union; then Mr. Kent Shoemaker, assistant vice president, operations, the Soo Line Railroad Co. I would like to have Mr. Ross Thorfinnson from the National Car Rental System come in this group too. We will maybe need some extra chairs. Why don't you just sit right on the end there, Mr. Thorfinnson. Also we have Mr. Louis B. Olsen, assistant general manager of the Minneapolis Metropolitan Transit Commission; James Denn of the Motor Transport Association, general manager of the Motor Transport Association.

A VOICE. He had to leave for just a few minutes but he will be back shortly.

Chairman HUMPHREY. That is fine. He will be coming back and we will bring him in then. In addition, we have Mr. C. L. Bowar, director of public affairs, Minnesota State Automobile Association, editor of The Minnesota Motorist, Lisle Reed, Deputy Director, Office of Oil and Gas, U.S. Department of the Interior. Mr. Reed, if you don't mind—where is Mr. Reed?

Mr. REED. Right here, sir.

Chairman HUMPHREY. We will just hold you until after the panel. You might observe what the panel has to say and you might want to make some response. You might be very helpful to us as a source of information.

Mr. REED. That is quite all right, sir.

Chairman HUMPHREY. Gentlemen, it will be very helpful now if you will file with us your full statements, if you have prepared statements. We will accept it as part of the verbatim testimony of the committee.

Second, after that, after having filed it, we would be grateful if you can keep your oral statements relatively brief, because we have a panel here. Just cite for us your experience and also any recommendations that you have. Just lay it on the line.

We will open up, according to the way we called the witnesses, with Mr. Carpenter. Cy, you just feel free to take off here and give us your observations.

STATEMENT OF CY CARPENTER, PRESIDENT, MINNESOTA FARMERS UNION, ST. PAUL, MINN.

Mr. CARPENTER. Thank you, Mr. Chairman, Congressmen Fraser and Frenzel. I am president of the Minnesota Farmers Union. I am obviously speaking on behalf of our members and farmers. We think it is particularly appropriate that this hearing is being held here to develop a better understanding and hopefully a better solution for a condition we consider very serious and one which, if left unchecked, might do serious and irreparable damage to many citizens throughout the State and the Nation. It is particularly appropriate that it is held here where farming and agribusiness is of major importance, because if this condition is allowed to worsen, one of the most serious disruptions for all of the citizens of the country will be the disruption of agriculture.

When I prepared this statement, Mr. Chairman, as of that date I was not aware of any actual farmwork stoppages due to deficient fuel. Nonetheless, the shortage was very real; they were down to a 1- or 2-day supply in many instances, and we knew where they were borrowing or shifting and where they were paying a premium which seriously verges on black market, but we were not aware of actual farm shortages.

This condition has changed. Yesterday, I received calls from farmers saying they did not have fuel to operate their equipment. And in checking with the cooperative that was supplying them, I learned that it had been out of fuel for 3 days, completely out, unable to meet their needs. The manager indicated that a number of these farmers were borrowing from each other or wherever they could to keep their equipment running, and apparently this condition is more widespread than we were aware of at this particular time.

I did ask the manager of this oil cooperative whether he was aware of any corrective or emergency action he might take and he was not. He frankly said "I don't even know who to turn to even to report this." I say this knowing very well of Mr. Erchul's activity but pointing that the agricultural and rural communities are often not involved in the situation. Without going into——

Chairman HUMPHREY. Could we interrupt there just a minute, Cy, to say, to anyone in the audience and anyone that may hear about these hearings will know, that there are two places particularly where rural people, the farmers, can report: their ASC committee office, that is in their county, or, second, Mr. Erchul's office, the Minnesota State civil defense office; and I am sure also, Cy, any of your members could report directly to you. And, finally, you always can report to your Congressman or your Senator, and I might add that we, as a delegation, are working very closely together on this. I mean if you are short on gas, it doesn't make any difference if you are a Democrat or Republican, you just don't move around, you know. We try to answer the needs of the people.

Go ahead.

Mr. CARPENTER. In addition to that shortage, when we prepared the statement, we were already aware of actual shortages that were occurring with respect to the movement of farm commodities. We checked with some grain haulers trying to move grain from local elevators and from farms, and we got reports where as many as 20 percent of their trucks were inoperative because of inadequate fuel, and this was on the main route going into the Duluth port which is, of course, extremely important to farmers consumers, haulers, and all of those involved. In addition, with the amount of grain that we have waiting for movement at the present time, and with totally inadequate service being provided by the railroads for the rural communities, and with our crop coming up at a rate which indicates this new crop will be ready for harvest before the local elevators can move the last harvest out, we face a problem that is snowballing as far as the movement of this commodity is concerned, particularly if this kind of fuel shortage is allowed to continue.

And I might indicate that in many instances, the only way this grain can be moved from some elevators is by grain transport.

Chairman HUMPHREY. Yesterday or Thursday, I believe it was, the Secretary of Agriculture indicated at Des Moines that the problem was so serious that a number of the country elevators were no longer receiving financing from terminal elevators in order to purchase crops, particularly where there was no storage, and that storage might very well be in short supply.

This means that where your transport system is already overworked, you are further jeopardized by a lack of fuel. Then you are going to find complicating factors such as lack of elevator space, lack of financing from terminals to country elevators, lack of hopper cars and boxcars to move it. And then all of these wonderful feelings that we have about a good crop that we hope and pray for may end up in being a small, and not even a small, but a major disaster.

Now, I wrote a letter yesterday to the Secretary of Agriculture asking for two or three things to be done. One was to review immediately the total storage capacity; secondly, to take immediate action to get a greater movement of hopper and boxcars; and thirdly, to look out into some of the competitive practices we see on the market presently, but that is beyond this particular hearing—we will also look into this with this committee.

Mr. CARPENTER. Additionally on that point, Mr. Chairman, the farmer is now starting to pay interest on the grain that he has under loan that he is unable to move even though he wants to do so. He has no alternative but to hold this grain on his farm and pay interest on this loan simply because he cannot deliver.

In addition, Senator, one thing we think needs to be brought to the attention of all of those dealing with this problem is that the farmer cannot live with the straitjacket of fuel allotments and allocations, because weather and other conditions make it impossible to determine how many gallons you use to produce so many bushels of grain or farm so many acres. A farmer may have to work that land twice if the weather is unfavorable, if weeds or other things warrant it. Because of an early season, he may require twice the fuel to dry grain or a commodity, and he can't predict this even days in advance, and his fuel cannot be interrupted. If the farmer is drying corn and his fuel supply is shut off, even for a matter of a couple of days, he may well lose his entire crop. Similarly, if his agribusiness services, his co-op elevator and the rest of them are similarly disrupted, the same kind of consequence will develop, and in this connection most of the drying firms are interruptible customers. They are low priority on gas and if this condition worsens they will be cut off without notice, perhaps in the midst of drying, and will face a very serious situation which will affect them, the farmer, and the consumer.

And, of course, it goes without saying that this necessity for uninterrupted service is at least as important with livestock and dairy. We can't leave milk without picking it up for a period of 2 or 3 days. If these trucks can't get the gas to go out and pick up the milk, if the drying plant has to stop—agriculture simply cannot operate either on a straight allocation or on an interruptible condition. And I mention this because, when we are talking about allocations, this is fine and good; the farmer will share in it as far as he can. But his need for fuel in many instances is such that he has no control over it if he is about to operate in a practical and effective manner.

Chairman HUMPHREY. The allocations that are being spoken of, Mr. Carpenter, are those to the wholesaler and the retailer, and then there is flexibility within that, what they have for——

Mr. CARPENTER. But they reflect very directly on the farmer and particularly in the cases of many suppliers whose principal customer is the farmer. And, therefore, if there is an allocation—a reduction or even the same as last year—many of the counties here in Minnesota used less fuel last year because they couldn't get their crops in. Now, if their supplier is held to the same allocation this year, they are in very serious trouble.

Chairman HUMPHREY. That is particularly true when the Government has asked the farmers to open up 45 million more acres——

Mr. CARPENTER. That's right.

Chairman HUMPHREY [continuing]. For tractor and plow, for harvest. I think this is a point, by the way, that we are bringing up in reference to the bill that is before us in the Senate, and I am pleased that you have emphasized it because it will be very helpful to us Monday when we take up the amendments on this.

Mr. CARPENTER. There is one further point I would like to make that I think is of particular importance and appears to have been unnoticed or at least not noticed to the degree we consider necessary, and that is I think we are sitting on a fuel shortage time bomb here with respect to agriculture in this part of the country. I mentioned that I checked with this cooperative and he was short or out of fuel, but many of these local suppliers had been drawing on their allocations 1 month in advance. This fellow had an allocation for June of 50,000 gallons. He's already sold and delivered 20,000 gallons of his June allocation, and when this catches up to us we are in a very serious situation.

There is another factor and that is that many of these farmers were made aware of the impending shortage and filled their tanks; you fill 200 and 300 and 1,000-gallon tanks throughout the country and you have a substantial reserve. This reserve has been drained and it is not being replenished, so actually that reserve is being eliminated, and that too will catch up to us about harvest time. We will find ourselves where they cannot continue to draw on their allocation for the month ahead and they do not have the on-farm reserve, and we will be in a very serious situation in my opinion.

One further point on that same situation and this involves not just farming but our rural communities. Out there, many of the institutions, churches, schools, State agencies, and others, let their contracts out on bid, and it is either given to the low bidder or rotated.

Now, many of these local suppliers tell us that their entire allocation will go to the individuals and they will not bid, and when we get cold weather you will find many schools that will not be getting any takers on their bids. Therefore this allocation is a part of the disappearing supply or the time bomb that is developing, because it is going and it clouds or hides the shortage that is really out there. We think this is a very serious situation and one that will catch up to us when the cold weather sets in.

In view of these conditions and the things that we are experiencing, we think the voluntary situation to date is totally inadequate and ineffective and does not provide either planning or direction. We, of course, applaud the efforts of the Congress in trying to develop a program that will give better clarity and understanding and mandatory direction, and we think the stalling and stumbling to date is a very serious condition that must be corrected and that Congress must take the initiative.

One other thing. We think in looking to the long-range—well, first to the immediate—we think that one recommendation in addition to the need for mandatory direction, we believe there is room for the curtailment of the use of fuels that are not absolutely necessary. For example, we believe that the National Guard and reserve training flights could be very severely restricted. We can go anyplace in this country and look up and see contrails. Where I live there are four-motored planes going out nearly every night on practice flights. The Guard is now going out on summer camp. I believe all of this can be severely restricted in the interest of making the limited supply of fuel available to more important causes in the interest of our total public.

And then in looking toward the long range, we think if we are really going to resolve this, our efforts should be toward developing energy sources in the interest of the country rather than in the interest of the present producers of energy, and if we need the initiative of space age activity, we believe it should be for harnessing the energy of the sun rather than flying to the moon.

I believe that's all I would have to say other than to express again our appreciation for the opportunity to speak here and to call attention to what we think is a very serious problem, facing first agriculture but secondly the consumer and the whole public.

[The prepared statement of Mr. Carpenter follows:]

Prepared Statement of Cy Carpenter

Mr. Chairman, members of the committee, my name is Cy Carpenter. I am President of Minnesota Farmers Union. On behalf of our members and farmers throughout this area, we wish to express our appreciation to Senator Humphrey and this committee for calling this hearing to develop better understanding and hopefully some corrective direction for a situation that is already serious and one which if left unchecked, might do serious and irreparable damage to many citizens of this state and nation.

It is particularly appropriate that this hearing is being held in a farm and agribusiness setting because if this condition worsens, one of the most serious damages to be felt by the citizens of this country would result from the disruption of agriculture. In this statement, we will not attempt to deal with the forces causing or contributing to the problem of a petroleum shortage, except to state that we consider it inexcusable to allow conditions to develop wherein the lives and businesses of nearly every citizen threaten to be seriously disrupted without the planning that could have prevented such a situation, or even foretelling those to be afflicted that such a threat would be upon them.

As to the conditions facing agriculture in Minnesota at the present time, I am not aware of any farmers who have actually had to curtail their operations or been denied fuel supplies to date. I have been advised that a number of suppliers have been down to a one or two day supply before new supplies arrived, and that in many instances, supplies were shifted or borrowed to keep farmers operating. I have also been advised that a number of suppliers have paid a substantial premium to secure petroleum products to meet the needs of their regular customers when an adequate supply was not available through their regular source. While this condition does not appear to be a black market type operation as yet, it does appear such a situation would develop very rapidly if a serious shortage continued for a length of time, and we attempted to rely on voluntary regulation.

While farmers may still be able to secure the necessary supply of petroleum fuels to meet their needs, those hauling their grain to market can not. We have received a number of reports of grain haulers that have been unable to get enough fuel to keep their trucks running and others who have found it impossible to buy fuel in areas that they did not regularly travel and thus are unable to serve farmers or elevators who are not on their regular route or where the movement of their grain involves a portion of the year of operation and thus the service stations in the area do not recognize these truckers as regular customers. Some of these truckers have informed us that their suppliers have warned them that conditions will worsen in July and August. Since that is the time of heavy demand by agriculture, we are fearful that these warnings might spell trouble for both farmers and truckers.

With the huge volume of grain still to be moved from farms and elevators and the totally inadequate service provided to many rural communities by railroads, it is doubtful if this grain can be moved in time for the coming harvest under the best of conditions. With grain transports restricted by a lack of fuel, the problem is magnified for trucker, elevator, and farmer, all three. In addition to an inadequate supply of fuel, many grain truckers relate an increase in cost of fuel of approximately 30% within the past year, and the price is continuing to move upward.

If farmers are to complete a 1973 crop to meet the food needs of this nation and our commitment around the world, several factors need to be given immediate consideration and resulting action. First, most farm suppliers have been placed on an allocation system by their regional or refinery supplier allowing them approximately the same volume that they handled in the past year in an effort to distribute petroleum products equitably. Farmers simply can not operate effectively if they are restricted to a strait jacket of allotments. Weather, crop conditions, seasonal variation, and other factors will cause a wide variation in the amount of fuel required to produce a given number of bushels of grain, the tillage of cropland, harvest and hay, and other farm operations. These variations cannot be predicted even days in advance.

Second, the farmers' demand for fuel must be met whenever that demand arises. His supply can not be by the week, month, or year, but must be available at all times. If he were to run short of fuel for even a matter of days during haying, harvest, lifting of sugar beets, or any other time, there is no way that delay could be made up.

Third, those businesses supporting farming must have the same availability to fuel supply. The elevator drying his grain, the creamery or dairy plant handling his dairy products must be able to operate uninterrupted. Any disruption with these operations would result in very substantial losses, not only to the farmer or his elevator or dairy plant, but to the consumer as well. With farmers operating on the narrowest of margins, the loss of a crop that could not be harvested or dried or properly handled, might well cause many farmers to go out of business.

Of course it should be noted that livestock and poultry operations are at least as dependent upon a constant supply of fuel and that their losses that could result from a fuel shortage would be at least as devastating.

Now we would like to call your attention to a situation that we believe deserves your most serious consideration because it appears to have been yet unnoticed and could well be a fuel shortage time bomb that might explode this fall. Earlier we mentioned that many local suppliers were receiving their fuel on an allocation basis. It now appears that a number of these distributors are selling their allocation for the month ahead as soon as they receive it in an effort to meet the needs of their customers and in the hope that the fuel shortage will lessen and the demand will not increase.

If the supply is further reduced or the demand increased, the suppliers will be unable to operate on next month's allocation, and serious conditions will rapidly develop.

Another condition which it appears might have even greater impact is the withdrawal by local suppliers from participation in winter fuel needs. In most rural communities, the schools, churches, courthouses, and many other institutions arranged to have several local suppliers bid on their fuel needs, and either let the contract to the lowest bidder or arrange for a rotation or sharing of their market. We now know that a number of these local suppliers will use all of the fuel available to them to meet the needs of their individual patrons and do not intend to participate in any bidding this fall and winter. When this happens, many of our local and rural schools and other institutions might find themselves completely without a source of fuel to operate their plant. Should such conditions develop, we are deeply concerned that adjustments and transfer of fuel could not be made rapidly enough to avoid severe disruption for these local institutions and those charged with the responsibility of operating them.

In view of the conditions which have already developed and are a part of the problem that we face today, and facing a situation which our observations lead us to believe is worsening, it appears obvious to us that the voluntary measures suggested by the administration and the lack of any cohesive planning or direction behind which the public might really provide support are totally inadequate and lacking in effectiveness. Further if corrective action is to be taken before the increasing demand from a fall harvest and the colder weather add to the problem, such action must be initiated at once. Therefore, we would recommend that the Congress establish an energy commission that can immediately begin an impartial evaluation of our petroleum supply and needs, and with the authority to require cooperation at every level to properly distribute our available supply to the most urgent needs for the immediate future and to take the necessary action to correct the situation for the future.

It is obvious that the problem that we face with respect to the entire petroleum situation is indeed serious and will need competent leadership and direction as well as good citizen support. It is equally clear that we have stalled and stumbled far too long in coming to grips with this problem that must be resolved. While resolving the problem will certainly require numerous actions on many fronts, we would like to suggest as one corrective action that could have prompt and substantial results would be the immediate curtailment of all National Guard and Reserve training flights that were not absolutely necessary. We would further suggest that National Guard travel and field activities be severely restricted throughout the summer in the interest of saving fuel and to encourage similar restrain from travel and excessive use by individual citizens.

Toward the solution of the long range problem of meeting our energy needs, we believe all space age activities should be directed toward harnessing the energy of the sun, rather than flying to a dead moon or passing a Venus or Mars that cannot provide any contribution to the well being of the people on earth. While we recognize the severity and the size of this problem, we have absolutely no doubt of this nation's ability to meet its energy needs if given the proper direction. When such direction is demonstrated, we also believe that most citizens will quickly demonstrate their willingness to cooperate and contribute to the solution.

I can assure you that the farmers will be the first to cooperate. We thank you for the opportunity to be heard before this committee.

Chairman HUMPHREY. Mr. Carpenter, you may be interested in knowing that it's been estimated that if the Government would cease its intense bombing of Cambodia with B-52's for 1 week, that the highest estimated fuel shortages in agriculture could be fully met for the balance of the year. Now, that's not an item that has been given a great deal of publicity but it is a firm estimate; because of the JP jet fuel that is used in the B-52's our farmers face all these problems. Those planes consume it like gluttons, you know—after all, a B-52 is nothing more than a flying fuel tank with a rack of bombs. That is really what it boils down to. It has a small crew. One week's cessation, total cessation, of the use of B-52's in Indochina will meet all of the highest estimated fuel needs of the agricultural economy. Just that one sector.

Now, if we would stop it for good, I think even our trucks would most likely have enough. When I spoke of the agricultural economy, I meant to include the trucks, the dryers, of all of the people that are involved in agribusiness, because you cannot speak of agriculture and fuel and just talk about the farmer and the tractor. You have got to include the elevator, you have got to talk about the dryer, you have got to talk about the transport system. Otherwise, it doesn't add up.

Mr. CARPENTER. That's right.

Chairman HUMPHREY. I believe our next witness is Mr. Shoemaker, assistant vice president, operations, Soo Line Railroad. Mr. Shoemaker, we thank you very much.

Mr. SHOEMAKER. Thank you, Mr. Chairman, Congressman Fraser. I, too, have a prepared statement to enter into the record, but in the interest of time and the people that want to be heard, I will be just paraphrasing a few pertinent parts of the prepared statement and let the record speak for itself.

Chairman HUMPHREY. Thank you.

STATEMENT OF KENT P. SHOEMAKER, ASSISTANT VICE PRESIDENT FOR OPERATIONS, SOO LINE RAILROAD CO., MINNEAPOLIS, MINN.

Mr. SHOEMAKER. My name is Kent Shoemaker. I am assistant vice president for operations of the Soo Line Railroad Co. Mr. T. R. Klingel, Soo Line vice president, intended to testify this morning but a death in his family precluded this. He assisted in the preparation of this prepared statement, and it has his specific approval.

In 1972 our railroad handled in excess of 50,000 carloads of grain, 79,000 carloads of lumber, and 27,000 carloads of potash, which, as most of you will recognize, is an essential ingredient of fertilizer for farm usage; as well as large quantities of pulpwood and woodpulp for the paper industry in Minnesota and Wisconsin.

In 1972, the Soo Line also handled 741,000 tons of Canadian liquified petroleum gas, an important source of heat for drying grain and for heating homes in rural areas, as well as for industrial purposes.

In the 12-month period, May 1, 1972, to April 30, 1973, the Soo Line used approximately 34.7 million gallons of diesel fuel oil as well as additional quantities approaching 700,000 gallons of heavy No. 6B oil and heating oil. The Soo Line basically contracts for fuel on a yearly basis or has done so in the past for the period of June 1 through May 31 of each year.

I have a list of specific suppliers and delivery points in my prepared statement which I won't belabor here. The important thing is that the total of these quantities supplies our railroad with approximately 32 million gallons of diesel fuel annually.

That is based upon last year's activity. For the next year, which began this June 1, we only have firm commitments for 15.8 million gallons roundly, although there are verbal commitments which we think will be honored and which will go beyond that.

The point is this shows how tight the situation is, because we are already into what we consider our next contract year and haven't even had firm commitments for one-half of our fuel oil.

We have oil quotations from American Oil for 14.6 million gallons to be delivered at 11 points. Over and above these committed contracts and within the last 3 days, American Oil has indicated orally that it will probably supply an additional 3 to 6 million gallons, depending upon the application of a formula Amoco is now developing, which we understand is partially based on the allocation program administered by the Department of Interior; thus, assuming Amoco enters into binding agreements as to all diesel fuel contracts now being negotiated with that company, the Soo Line will have commitments for approximately 35 million gallons. With this and an additional 1.5 million gallons that we hope to obtain from local sources, we have some hope of covering our expected requirements.

Of course, all of these basic fuel oil supplies contracted for or locally purchased assume the basic availability of oil, and the contracts so state; so they are not contracts in a binding sense.

Chairman HUMPHREY. And about one-half of those at this stage, as I understand it from your testimony, are now oral.

Mr. SHOEMAKER. That's correct.

Chairman HUMPHREY. You consider them to be reliable but these as of yet have not been finalized; is that correct?

Mr. SHOEMAKER. That is correct. It is our best estimate that in the period of June 1, 1973, to May 31, 1974, we will need at least 37 million gallons of No. 2 diesel oil, which is an increase of about 7 percent over the previous year's usage, which interestingly fits in with the figures that have generally been talked about for the economy of this area.

We have storage facilities for only a 25-day supply, but during the threatened shortage last winter our company's inventory fell to a 10-day supply, and at certain points the Soo ran out of fuel altogether, but fortunately we were able to secure emergency supplies from local suppliers. Because our locomotive horsepower is kept at a minimum, fuel shortages will require service cuts in areas where traffic density is the lightest. Unfortunately, this is the case on many branch lines where the only possible cut in service would require temporary removal of trains. Rural, lightly populated areas would be seriously affected because service cuts cause inefficient use of our car supply. It will also be necessary to cut switching service to conserve fuel, and industry will be adversely affected.

Chairman HUMPHREY. That would affect your boxcar movement as well?

Mr. SHOEMAKER. Very much so, sir. As a result of curtailed railroad service, employees' earnings would be adversely affected and sustained shortage would result in furloughed employees.

I would also like to point out that the threatened fuel shortage and reliance on Canadian oil supplies, which is a part of the contracts in which the Soo is dealing with local suppliers, will greatly increase our fuel costs, decrease our net income and restrict our ability to increase our car and locomotive fleet and maintain and rebuild our road facilities. We anticipate that our fuel costs may increase by 25 to 30 percent. This reflects a lesser percentage than stated in the communication you received from Mr. Manion. The reason for that is that the Soo is comparing prices to the contract year just completed, and what has really happened is that we have already incurred substantial increases in fuel prices from local purchasers during the past year, and that is the reason for the difference in the figures. Otherwise, they come out close to the 50 percent that Mr. Manion indicated as the national figure.

Our position with respect to the voluntary programs is that, if they fail to protect our fuel supplies, compulsory controls should be adopted. That in summary is what I had to say this morning and I appreciate the opportunity to be here and your thoughtfulness in hearing our story.

[The prepared statement of Mr. Shoemaker follows:]

PREPARED STATEMENT OF KENT P. SHOEMAKER

My name is Kent P. Shoemaker. I am Assistant Vice President, Operations, of the Soo Line Railroad Company and have been employed by the company since 1965. Mr. T. R. Klingel, Soo Line Executive Vice President, intended to testify but his mother-in-law's funeral is being held today. He assisted in the preparation of this statement, and it has his specific approval.

My offices are in the Soo Line Building at Minneapolis, Minnesota. I have general supervision, under Mr. Klingel, of Soo Line's transportation operations. I am familiar with the transportation requirements of our territory, our locomotive fuel requirements and with problems which have arisen in connection with threatened oil shortages.

Our Company operates approximately 4700 miles of railroad reaching from Eastern Montana throughout the Dakotas and Minnesota to the grain markets in the Twin Cities and Duluth-Superior. Our lines also extend from Duluth and the Twin Cities easterly to Sault Ste. Marie, Michigan and southerly to Manitowoc and Milwaukee, Wisconsin and to Chicago, Illinois. Approximately 2500 miles of our railroad are largely devoted to the transportation of grains to terminal elevators and beyond. In 1972 the Soo Line had approximately 5100 employees and a payroll of $65,420,000.

In 1972 we handled 50,279 carloads of grain, 79,000 carloads of lumber, 27,000 carloads of potash (an essential ingredient of fertilizer for farms) and large quantities of pulpwood, wood pulp and paper for the important paper industry of Minnesota and Wisconsin. In 1972 the Soo Line also handled 741,132 tons of Canadian liquified petroleum gas, an important source of heat for drying grain and heating homes in rural areas and for industrial purposes.

The Soo Line has a fleet of 216 diesel electric locomotives with eight more on order. It is our policy to be as economical as possible in assigning horsepower to trains, and locomotive unts per train are kept at an absolute minimum, with resulting efficient use of fuel oil.

It has also been our policy to obtain delivery of fuel at various points on our system. Threatened fuel shortages at particular points tend to defeat efficient distribution because oil must be moved from system areas where it is available to points of threatened shortage.

In the twelve month period between May 1, 1972 and April 30, 1973 the Soo Line used approximately 34,695,000 gallons of diesel fuel oil. Also, approximately 700,000 gallons of heavy number 6B oil and heating oil were used during the 1972–1973 season.

It has been the Soo Line's practice to enter into fuel oil contracts each year to cover the period from June 1st to the following May 31st. Oil company quotations are generally subject to reservations that quantities to be delivered are subject to change in the event of crude oil shortages, interference of civil authority, compliance with orders, requests or recommendations of governmental authorities or other causes beyond the suppliers' control.

For the period between June 1, 1972 and May 31, 1973, Soo Line's fuel oil "contracts" covered 31,820,000 gallons of diesel oil. The major suppliers were as follows:

Location	Vendor and location	Gallons per year
Schiller Park, Waukesha	American Oil, Whiting, Ind	6,050,000
North Fondulac, Neenah, Stevens Point	American Oil, Whiting, Ind	4,885,000
Gladstone	American Oil, Escanaba, Mich	1,560,000
Marquette	American Oil, Escanaba, Mich	800,000
Soo Yard	American Oil, Sault Ste. Marie, Mich	560,000
Superior	American Oil, Superior, Wis	1,750,000
Bismarck, Hankinson	American Oil, Mandan, N. Dak	110,000
Enderlin, Portal, Rhinelander	American Oil, Mandan, N. Dak	3,155,000
CF Yard, Glenwood, TR Falls	Koch Refining, Roseport, Minn	5,090,000
Shoreham	Conoco Oil, Minneapolis, Minn	7,160,000
Ashland	Murphy Oil, Superior Wis	700,000
Total		31,820,000

In addition, in the same period we purchased 2,800,000 gallons from local sources at various points.

As to our diesel fuel requirements for the year ending May 31, 1974, we only have firm contracts described below:

Location	Vendor and location	Gallons per year
Marquette	Murphy Oil, Marquette, Mich	690,000
Superior, CF Yard, Stevens Point	Murphy Oil, Superior, Wis	2,020,000
Ashland, Shoreham, Glenwood, Harvey	Koch Refining Co., Roseport, Minn	5,040,000
Minot, Portal	Westland Oil, Williston, N. Dak	886,000
Shoreham	Conoco Oil, Minneapolis, Minn	7,160,000
Total		15,796,000

We have oral quotations from American Oil Company (Amoco) for 14,598,000 gallons to be delivered at eleven points. Within the last three days Amoco has orally indicated it will probably supply an additional three to six million gallons depending upon the application of a formula Amoco is now developing which we understand is partially based upon the voluntary allocation program administered by the Department of Interior. Thus, assuming Amoco enters into binding agreements as to all diesel fuel contracts now being negotiated with that Company, the Soo Line will have commitments for approximately 35 million gallons; this with approximately 1,500,000 gallons we hope to obtain locally would cover our expected requirements.

I would like to point out that Soo Line's supplier, the Koch Refining Company of Roseport, Minnesota relies heavily on Canadian crude oil. This source may be cut off at any time because of increasing Canadian government reluctance to increase exports of crude oil and refined products to the United States; and the Soo Line's oil supply would be decreased by 5,040,000 gallons, assuming all other suppliers fulfill their "contract" commitments.

Our Purchasing Department has also been negotiating with the Imperial Oil Company of Regina, Canada for approximately 5,100,000 gallons of diesel oil for delivery at Hankinson, North Dakota and Thief River Falls, Minnesota. At this time we have no assurance that this supplier will give us a quotation; and, as stated above, the supply of Canadian oil may not be dependable.

It is our best estimate that in the period June 1, 1973 to May 31, 1974, we will need at least 37,000,000 gallons of #2 diesel oil, which is an increase of about 7% over the previous year's usage.

We have storage facilities for a 25 day supply of fuel, but during the threatened shortage last winter our Company's inventory fell to a 10 day supply. At given points the Soo Line ran out of fuel altogether but fortunately we were able to secure emergency supplies from local suppliers.

Because our locomotive horsepower use is kept at a minimum, fuel shortages will require service cuts in areas where traffic density is the lightest. Unfortunately, this is the case on many branch lines where the only possible cut in service would require temporary removal of trains. Rural, lightly populated areas would be seriously affected because service cuts cause inefficient use of our car supply. It will also be necessary to cut switching service to conserve fuel, and industry will be adversely affected. As a further result of curtailed railroad service, employees' earnings would be adversely affected and sustained shortage would result in furloughed employees.

In the past year or more, reduced grain rates have been in effect in North Dakota and Minnesota. These reductions were made possible by tariff rules which require rapid loading and unloading of grain cars. The tariff's purpose was to increase car supply by making rapid turn-a-round possible. If fuel shortages develop which deprive the railroads in our territory of the ability to move cars immediately when loaded or empty, the beneficial arrangement which permits reduced rates and improved car utilization will be defeated.

I would also like to point out that the threatened fuel shortage and reliance on Canadian oil supplies will greatly increase our fuel costs, decrease our net income and restrict our ability to increase our car and locomotive fleet and maintain and rebuild our road facilities. We anticipate that our fuel costs may increase by 25 to 30%.

The fuel used in railroad diesel-electric locomotives is type #2, a type widely used for farm tractors, motor trucks and home heating. As a result, the railroads must compete for fuel with other groups, and a sound program is essential to assure the railroads the fuel necessary to operate. The railroad industry is one of the most efficient users of fuel, and it is in the best interests of conservation and the public that the railroads acquire the highest priority to assure full use of their inherent efficiencies and advantages.

If voluntary programs fail to protect our fuel requirements, it is the position of our Company that compulsory controls should be adopted.

Thank you. I appreciate the opportunity to appear here today and to advise you of the effects of fuel oil shortages on the operation of our railroad.

Chairman HUMPHREY. The Soo Line has a vast service network in the rural areas, doesn't it?

Mr. SHOEMAKER. Yes, we are really a rural railroad and really a "granger-built" railroad, so the Soo is very vitally concerned with the agricultural business, particularly in western Minnesota and North and South Dakota. This is part of our concern with respect to the fuel shortage. If, on a day-to-day basis, fuel supply shortages result in our actually curtailing operations, there is only one thing we can really do. We have got to move the maximum amount of tonnage and hurt the fewest people possible. This results not necessarily in a good economic decision but in a choice that restricts the branch lines because we just don't have any other choice.

Chairman HUMPHREY. Yes. I think something is wrong with many of our calculations, and I just want you to think about this for a minute. As I see it, our gross national product on a real basis— after the inflation is taken out—is growing. The volume of goods and services is expanding this year, fortunately, as is shown by Government revenues. In the agricultural sector, as I said to Mr. Carpenter awhile ago, we are opening up a lot of acreage, 45 million acres, 6 million more acres of soybeans, largely in Minnesota and Iowa, needless to say, this belt down through the Midwest.

This is very important, and we are also in the northern part of our State and, of course, in the Dakotas, opening up hundreds of thousands more acres of wheatland. The whole idea now has been to increase production, because we think there is a great export demand. Now, if you have got export demand, you have to move it. You have got to get it to the ports, and I am afraid that the fuel estimates that have been made have not given adequate consideration to the additional production that will come from the expanded production capacity, particularly in the agricultural sector. I guess it is 45 million more acres of feed grains, of wheat and soybeans and corn. That is a lot of acreage, and if we should happen to get anywhere near a good crop, knowing already that we are not able to move much of what we presently have, a line like the Soo Line without adequate fuel would just be in one real tough fix, wouldn't it?

Mr. SHOEMAKER. Very much so. Another aspect of the situation railroads operating solely in this area, like the Soo, is that we do not have the variety of alternatives for bringing fuel in from other parts of the country. And it is a very serious situation. Our sources of supply are basically Chicago, through the Twin Cities, Superior, and North Dakota points.

Chairman HUMPHREY. Right.

Mr. CARPENTER. One quick point on that, Senator, those 45 million acres are also disproportionately heavily located in the upper Midwest.

Chairman HUMPHREY. Right.

Mr. CARPENTER. That is not distributed around the Nation. Most of that will be right here in the upper Midwest States.

Chairman HUMPHREY. Mr. Olsen is our next witness. Mr. Olsen is the assistant general manager of the Minneapolis Metropolitan Transit Commission.

STATEMENT OF LOUIS B. OLSEN, ASSISTANT GENERAL MANAGER, TWIN CITIES AREA METROPOLITAN TRANSIT COMMISSION, MINNEAPOLIS, MINN.

Mr. OLSEN. As you know, Mr. Chairman, Congressmen, the Metropolitan Transit Commission operates the publicly owned transit system here in the Twin Cities area. We currently operate 710 buses, 698 of which are diesel fueled, and 12 of which are propane fueled. We currently have a route system of 921 miles of regularly scheduled service. We project to operate in excess of 19 million bus-miles during the calendar year of 1973 and to provide 60 million passenger trips during calendar 1973, or approximately 1.15 million passenger trips per week.

Chairman HUMPHREY. You know, Mr. Olsen, when I first heard that figure, I insisted to a member of my staff that he was totally misinformed. I said, "Look, we have got enough trouble around here without you coming and feeding me a lot of that stuff." But by golly, he was right. I take it from you. I had a big family argument in Washington yesterday about this.

Mr. OLSEN. Mr. Chairman, since 1959, the Standard Oil Division of American Oil Co., had supplied diesel fuel to the Twin City Lines, Inc., which was a private company, and in 1970 when the metropolitan transit commission acquired the private company, Standard continued to supply fuel by bid and contract arrangement.

The 1-year contracts with Standard Oil begin June 1 and expire May 31, as I have heard at the table here this morning is the case in other instances, too, apparently. In 1971 the metropolitan transit commission received five bids for diesel fuel ranging in price from 11.6 cents per gallon to 14.3 cents per gallon. In 1972, there were but two bidders, Standard Oil at 11.88 cents per gallon, which was the low bidder.

Throughout the past years, diesel fuel supplies were never in doubt. However, on January 5, 1973, Standard advised us, the metropolitan transit commission, that due to an extreme shortage of No. 1 grade diesel fuel, beginning immediately, they would be supplying the commission with Amoco premier diesel fuel, which is a mixture of No. 1 and No. 2 diesel fuel.

The very next day, on January 6, 1973, Standard advised the commission that until further notice they would be delivering to the commission only 75 percent of a month's portion of the current annual contract amount. The contract provided for the delivery of 4,676,000 gallons annually. One-twelfth of that amount would be 389,666 gallons, and 75 percent of that monthly quantity amounted to 292,000 gallons, or a shortage of 97,000 gallons per month.

Realizing that the commission would face a shortage of approximately 100,000 gallons during the month of January and that such shortages would be likely to persist, a thorough search of the local market was made in an effort to find a source of at least that amount. This search yielded but 7,000 gallons from one local supplier. During the days that followed, contacts were made with State and Federal officials and with officials of the major transit industry group, the American Transit Association, and a thorough search was made in various market areas throughout the United States in an effort to obtain commitments for the necessary quantities of fuel.

It is interesting, if not ironic, that during this period of our search for diesel fuel, preparatory to shutting the bus system down, a gas war was in full swing in the Richfield suburban area of the Twin Cities.

Chairman HUMPHREY. We can always find resources to fight, can't we?

Mr. OLSEN. While this search yielded no tangible results, working with Minnesota Governor Wendell Anderson's office, and I might add Mr. Erchul's office, we were able to locate a supplier in Canada and on January 18, 1973, purchased 270,000 gallons of No. 1 Canadian diesel fuel at 16.75 cents per gallon. By the way, our contract price at that time was 11.88, excluding transportation.

Since the fuel purchase was f.o.b. the refinery located at Regina, Saskatchewan, Canada, it involved transporting the fuel by tanker truck from Regina to Winnipeg via the Trans-Canada Highway and from Winnipeg to the Twin Cities, thereby raising the actual cost of the diesel fuel to the metropolitan transit commission to 30.78 cents per gallon.

The first deliveries of the Canadian fuel took place on January 20, 1973, and they continued until February 12, 1973.

Chairman HUMPHREY. I have got to interrupt you. Just the other day, the radio station up at Regina, Saskatchewan, called my office and wanted me to do a half-hour interview with them. I thought, why should I be interested in doing a half-hour interview up there in Saskatchewan. I was waiting for a Minnesota radio station to call me. And I told one of my people in the office, you tell them if they will promise us this winter in case we are in another jam on fuel, that they will see to it that they have a reserve supply—because I knew you had been up there a year ago—I will do the half-hour broadcast. They called back and said they would cooperate, so I want you to know we have got a little plug in there in case you need it. No votes in Saskatchewan, though.

Mr. OLSEN. On January 23, the metropolitan transit commission purchased an additional 100,000 gallons of No. 2 diesel fuel at 16.55 cents per gallon and made arrangements to store the fuel locally at a cost of three-quarters cents per gallon for loading and unloading the fuel and storage and for the first month. Fees for storage after the first month are charged at the rate of one-quarter cent per gallon per month.

The 270,000 gallons purchased and transported from Canada together with the 100,000 gallons purchased locally created an additional cost to the metropolitan transit commission, and I might add the taxpayers of Minnesota, of $57,994 for the 370,000 gallons.

In late April, the metropolitan transit commission solicited bids from all major and independent suppliers for diesel fuel and petroleum products for the new contract year beginning June 1, 1973. The solicitation elicited no bids for the 24,000 gallons of gasoline needed, and only one bid for diesel fuel, that from the metropolitan transit commission's present supplier, Standard Oil, who bid but 3,738,000 gallons of the 5 million asked for in the bid specifications. In addition, the bid was for Amoco premier diesel, a mixture of No. 1 and No. 2 diesel, not No. 1 diesel as asked for in the specifications. The price rose from 11.88 cents per gallon under the 1972–73 contract to 14.9 cents, a 25-percent increase, and the bid contained the following clause:

> The prices and/or quantities set forth herein are subject to revision by seller, at its option, at any time or times, on 10 days written notice to buyer of each subject revision.

Standard's diesel fuel bid of 3.7 million gallons amounted to 70 percent of the metropolitan transit commission's requirement for the 1-year period beginning on June 1, 1973. On May 9, 1973, we were advised by Standard Oil that beginning immediately, all of Standard's customers, including the metropolitan transit commission, would be placed on a monthly allocation basis; that is, they would receive one-twelfth of the 1-year contract amount each month, instead of delivering fuel on a keep-full basis as has been the practice in the past.

Since the contract amount was more than a million gallons short of consumption, the metropolitan transit commission would be forced to locate, transport, and store additional fuel each month.

In addition to the 25 percent increase in diesel fuel costs, bids for petroleum products resulted in the following cost increases: heavy-duty motor oil, a 40 percent increase; hydraulic transmission fluid, a 20 percent increase; lithium grease, a 28 percent increase; and gear lubricant, a 13.1 percent increase.

Chairman HUMPHREY. Do you get those items from Standard?

Mr. OLSEN. No, we do not, Mr. Chairman.

Chairman HUMPHREY. Who is the major supplier for those oils?

Mr. OLSEN. Continental Oil Co. was the low bidder.

Chairman HUMPHREY. Continental Oil.

Mr. OLSEN. Immediately after the opening of the bids for diesel fuel and petroleum products, a local and national search was again initiated in an effort to locate the 1.3 million gallons of diesel fuel required to operate the bus system for the 1-year period beginning June 1973.

We were unable to find any local suppliers that could meet our needs for the coming year. However, we were able to obtain 22,000 gallons of No. 2 diesel fuel at 15.5 cents per gallon from one local supplier, and 7,000 gallons of No. 1 diesel fuel from another local supplier at 19.3 cents per gallon.

We also contacted fuel suppliers in other market areas, each with its own peculiar problems of transportation. Our experience with the Canadian fuel in January and February had made us highly conscious of the major role of transportation expense in the actual cost of fuel from alternate sources. Accordingly, we initially concentrated our efforts in market areas accessible by river barge.

However, delivery of any substantial quantity of fuel presents yet another problem, that of storage. Lacking massive storage facilities of its own—the Metropolitan Transit Commission, by the way, has a total storage for 68,000 gallons or slightly less than 4 days' supply—the Metropolitan Transit Commission would still be required to obtain the use of large tanks if the supply and transportation problems had been overcome. Storage would have added yet another element to the cost, as was the case with the 100,000 gallons of No. 2 fuel purchased in January.

Mindful of these complexities, our experience in these distant market areas was as follows:

MOBILE, NEW ORLEANS, HOUSTON, AND GALVESTON

Unable to locate diesel fuel in any one of these markets, brokers advised that No. 2 diesel fuel is available in very large quantities (4–5 million gallons).

Prices quoted in these areas range from 16 cents to 17 cents per gallon plus transportation from the point of purchase to the twin cities.

River barges for hauling fuel are in short supply having been leased well in advance and the Mississippi River just reopened after having been closed for 4 weeks by flooding downstream.

Storage for any large quantities of fuel continued to be a very serious problem.

ST. LOUIS AND JOLIET

No fuel identified or apparently available at this time.

Latest price quoted for fuel in these areas was 16.8 cents per gallon plus transportation.

Storage problem.

TULSA, OKLAHOMA CITY, WICHITA, DALLAS, AND FORT WORTH

No fuel identified or apparently available at this time.

The latest price quoted was 16 cents to 18 cents per gallon plus transportation.

Same problem of storage.

CANADIAN SOURCES

No fuel identified or apparently available at this time.

Latest price quoted was 18 cents per gallon, West Canada, and 19 cents per gallon, East Canada, plus transportation (We paid 16.5 cents per gallon plus transportation for fuel purchased in Canada during the month of January, 1973).

Chairman HUMPHREY. I notice that from Canadian sources and your Oklahoma and Texas sources, you are running 16 to 18 cents per gallon plus transportation, and in Canada 18 cents per gallon from West Canada, 19 cents per gallon from East Canada, plus transportation.

Mr. OLSEN. That is correct.

Chairman HUMPHREY. As compared to a year ago of what?

Mr. OLSEN. I think we paid 16.75 in Canada when we purchased the fuel from Imperial Oil.

Chairman HUMPHREY. And what were you paying in Wichita, Oklahoma City, Dallas, Fort Worth?

Mr. OLSEN. Of course, Mr. Chairman, we had Standard as our supplier at 11.88.

Chairman HUMPHREY. 11.88.

Mr. OLSEN. At this same time, a contingency plan for service cuts was being prepared in anticipation of the possibility that we would be unable to locate adequate fuel supplies. It appeared that we would only be able to operate full service through the third week in July. If fuel was not found by the end of June, we had the alternative, however, of making service cuts the first of July in order to operate essential rush hour service through that entire month. Two plans were developed, both of which involved elimination of service on Saturdays, Sundays, evenings after 6:15 p.m., and some mid-day service on weekdays.

During the week of May 20, 1973, Senator Humphrey's office was contacted for assistance in connection with the voluntary system of fuel allocations, and this past Wednesday morning, May 30, Senator Humphrey or his office advised the Metropolitan Transit Commission that his office, together with the Office of Oil and Gas in the U.S. Department of Interior, had obtained an agreement from Standard Oil to provide the Metropolitan Transit Commission with its full needs for the coming contract year.

Aside from providing for the continued full service operation, the agreement with Standard obtained by Senator Humphrey's office and the Office of Oil & Gas resulted in an annual savings of at least $255,000 for the 1-year period, based on our estimate that diesel fuel would, in all likelihood, have a cost of 30 cents or more per gallon, if in fact we were able to locate a supplier, transport it, and make adequate storage arrangements.

The commitment of the Metropolitan Transit Commission to the purchase and transportation of 270,000 gallons of diesel fuel in early January 1973 was obviously a vital step to the continuation of transit services at levels required to meet the needs of metropolitan area residents.

Any curtailment of transit service would have had several tragic effects. It would have created enormous hardships for passengers having no alternative means of travel. It would have increased auto usage, thus further increasing gasoline shortages. Perhaps most importantly, it would have greatly undermined the Metropolitan Transit Commission's successful efforts of the past 2½ years to increase transit ridership, which had been on the decline for more than two decades. For these reasons, it was inconceivable that the transit needs of a metropolitan area of more than 1.5 million people should not be served for lack of adequate fuel supplies.

Our efforts over the past month to locate diesel fuel have convinced me that, for whatever reason, there is presently an extreme shortage of petroleum fuel supplies in this as well as other areas of the United States.

Chairman HUMPHREY. Is this the kind of information that you are getting from others with whom you visit and talk in the trade, so to speak? I mean in your work?

Mr. OLSEN. It is indeed, Mr. Chairman. As a matter of fact, I think there was an article in the St. Paul newspaper here just the other night that explained that 30 transit systems around the United States had not received bids and that 2 were seriously considering substantial curtailment of service.

In my discussions with fuel suppliers, I have been led to believe that there will be even greater shortages in this coming winter. If this is true, these shortages will, in all likelihood, have an adverse effect on those industries and service agencies most essential to the well-being of the general public.

With this in mind, I would urge an immediate and thorough analysis of the effectiveness of the voluntary system of fuel allocations, especially as that system relates to established priorities.

I would further urge, if at any time it appears that the voluntary approach is not achieving results consistent with the best interests of the public, that these priorities be made mandatory.

Chairman HUMPHREY. Thank you very much, Mr. Olsen. That is a very helpful statement. The information you have given on other transit systems is extremely helpful right now because we Senators are beginning to get the same kind of documentation in our respective offices. I noticed the other day that some of my colleagues from Ohio were getting the same kind of information that you presented here with reference to their transit systems.

Now, we are going to kind of give a little variety here. Mr. Thorfinnson, you are with the National Car Rental?

Mr. THORFINNSON. That is correct.

Chairman HUMPHREY. And you and I have been together before. I thought this would kind of give us a little broader dimension of the problem, and maybe you can take a few minutes here, and any statement you have prepared we'll include in the record.

STATEMENT OF ROSS L. THORFINNSON, PRESIDENT AND CHAIRMAN OF THE BOARD, NATIONAL CAR RENTAL SYSTEM, INC., MINNEAPOLIS, MINN.

Mr. THORFINNSON. Thank you. Senator Humphrey, Congressman Fraser, I am chairman of the board and president of National Car Rental System. I also happen to be a national director of CATRALA, which is our association for the car and truck rental and leasing industry.

The National Car Rental System has already written you, Senator Humphrey, and other Senators and Congressmen urging action to alleviate the fuel energy crisis. In that letter we explained the public nature of the transportation services provided by our industry and the importance of fuel to our industry and it's very survival.

My purpose today is to explain briefly the current impact of the fuel energy crisis on our industry as a result of the events of the past 6 weeks. The specific experiences of National Car Rental are typical of those the industry is facing. This impact has been primarily an economic one, since I know of no instance yet where we've been unable to rent or lease a car or truck because of lack of fuel.

The economic impact has resulted from increases ranging generally between 30 percent and 50 percent in the price of our bulk fuel purchases. In some cities no major oil company has been willing to bid on our fuel needs. In those situations we are buying on an individual lot basis from independent bulk suppliers at prices that add as much as 70 percent to our fuel costs. In situations of extreme shortage we supply a quarter of a tank of gas to rental customers in our automobiles and ask them to buy gas at the first available retail station.

In virtually every city, when our present fuel contracts expired our present suppliers have refused to bid on a renewal of the contract. Other major oil companies, if they submit bids, substantially increase the price virtually to the retail pump price level and require escalation clauses for any upward fluctuation in the bulk oil market price. These excessive increases in fuel costs coupled with the substantial increase in consumption of fuel by the 1973 model automobiles will produce major cost increases for our industry.

When we talk about allocations, whether mandatory or voluntary, we are faced with the very unique problem that, No. 1, our company at least has been growing very rapidly. Our needs are expanding every year. But our needs for fuel have been compounded this year by the emission control devices that are being put on the cars, so that as we try to operate current model cars to provide quality transportation service to customers, we're needing 17 to 20 percent more gas this year just to operate the same number of miles that we operated last year. This is true even supplying smaller cars in our fleet than was customary in prior years.

We urge that Congress take every appropriate step to minimize the fuel energy crisis, to insure long range development of fuel resources and, very importantly, to prevent the oil industry from profiteering at the expense of the American public and other American industry during the present emergency.

Now, in the prepared material that I will give you in connection with the short remarks that I made, there is a detailed analysis of a survey that we've made, city by city, of our operations—what is happening in our attempts to renew contracts, which companies are refusing to bid, what is happening on the bids we do get, so that you will have that detail. If you desire more, we have the individual workpapers that back up the summaries that are in here and we will make those available.

Chairman HUMPHREY. That will be very helpful and we appreciate it and it will be incorporated as part of our record at this point.

[The information referred to above follows:]

NATIONAL CAR RENTAL BULLETIN,
April 2, 1973.

Subject: National Car Rental—Energy Crisis, Fuel Shortage.

The reality of a fuel shortage during the coming months is cause for real concern. There are many opinions and ideas about why? what to do? who should do it?, etc.; therefore, this letter of clarification.

At the outset, permit me to state that the problem *is real* and will not improve unless *we, you and I,* do something about it. I have enclosed a sample of the letter we have directed to our Senators and Congressmen.

Presently we are importing 20% to 30% of our fuel needs. Increased demand is mainly due to more miles traveled and this is increasing dramatically. The total mileage rolled up by U.S. motorists in 1970 is one trillion, 125 billion miles—the equivalent of more than two million trips to the moon and back. (Source—Auto Dealers Traffic Safety Council). We suggest that you make contact with your State and Federal legislators and give them your personal views on the problem.

Someone has said that: No king has ever commanded as much power as a nickle pencil in the hands of a citizen of the U.S.A. when he writes his congressman."

Write, in your own words, tell them of your concern for fuel shortage, the necessity of lifting import quotas, how you feel personally. All I can tell you is you can do more as individuals than we can as a company, so write.

Should you require help, call or write Vince Abramson, Vice President, Government Relations.

VINCE ABRAMSON.

P.S.—When the shortage or rationing is implemented, don't say you were not aware of the seriousness of the problem!

NATIONAL CAR RENTAL SYSTEM, INC.,
Minneapolis, Minn., April 2, 1973.

Re Energy Crisis and the Car Rental Business.

Hon. CLAUDE S. BRINEGAR,
Secretary of Transportation,
Washington, D.C.

DEAR SIR: A matter of primary concern to businessmen and citizens throughout the United States today is the existing and rapidly accelerating energy crisis. Our entire industry is fully dependent on available petroleum fuel supplies for its very existence. This fact, as well as our concern for the future of our country, is behind our writing you at this time urging immediate action to take the most effective steps possible to minimize the energy crisis.

We believe that in the long run, it is absolutely essential that our domestic producers develop the capability of supplying our petroleum fuel needs from domestic sources. That deregulation of artificial price controls at well head be accomplished in order to encourage oil producers to accelerate domestic supplies. Our import oil policies have presumably been designed to achieve this goal. In spite of this, however, it is readily apparent that very little capital has been invested domestically in exapnding our crude oil supplies. In addition, serious opposition from ecologists has retarded efforts to utilize available off-shore and Alaskan oil supplies.

Although we subscribe to the above long-range objectives, until such time as they become more viable, we believe it is in the best interests of our country, as well as our own selfish interests in surviving as an industry, that immediate steps be taken to lift the oil import restrictions and to permit sufficient residual fuel oils and petroleum products to be imported so that the present energy crisis can be minimized. Effective steps should be taken to insure that our domestic sources will be developed as soon as their development is economically and ecologically feasible.

In order to acquaint you with the needs of our industry, we believe it would be helpful to provide you with some basic facts about the car and truck rental and leasing industry.

The car and truck rental and leasing industry provides commerce, industry and the traveling public economical, trustworthy mobility unequaled in any society. With the advent of the jet aircraft, the interstate system and our urban society, as well as the diminishing capabilities of the railway industry which is currently so widely reported in the public press these days, the car, truck and one-way rental has become a way of life. With more than half of the U.S. population licensed drivers and the rental industry growing at better than 20% per year, petroleum is crucial.

CAR RENTAL FACTS

1. About 85% of the car rental business is transacted on airport locations, *to businessmen for business* reasons and to tourists flying to their vacation destination and renting automobiles there to avoid driving from their homes to ultimate destination locations.
2. Car Rental is high-quality, flexible and economical.
3. Car Rental conserves energy, since renting is for essential business and fly/drive vacation use.
4. Car Rental provides additional mobility for emergency, alternate, or substitute transportation.
5. Our urban society demands rent-it-here/leave-it-there flexibility so necessary in today's changing attitudes.

TRUCK RENTAL AND LEASING

1. Truck Rental provides industry and the consumer economical direct service.
2. Industry figures support a better than 20% yearly growth.
3. Since rail service is being deleted in many communities, trucks are absolutely essential.
4. Population and migration statistics indicate sudden and dramatic changes in our society. Truck and trailer rentals meet this need.
5. Trucks accounted for 430 billion ton miles in 1971, 22.3% of total registered ton miles by all forms of transportation. (American Trucking Association)

It is our firm conviction that unless positive action is taken now to assure that recently relaxed restrictions on oil imports will be a continuing policy as well as affirmative action to accelerate domestic production, then we as a nation will be in very serious difficulty this year.

Respectfully yours,

Ross L. Thorfinnson,
Chairman of the Board and President.
Vince Abramson,
Vice President, Government Relations.

Statement of Car and Truck Renting and Leasing Association, Before the Senate Interior and Insular Affairs Committee, May 9, 1973

Mr. Chairman and Members of the Committee: My name is Rex Denkmann. I am Assistant General Counsel of the Car and Truck Renting and Leasing Association. We are grateful for this opportunity to submit a statement on the energy crisis and its present and possible future effects on our industry.

The Car and Truck Renting and Leasing Association is an association of those firms and persons who are engaged in the rental and lease of cars and trucks in the United States, the District of Columbia, Puerto Rico and Canada. We have in excess 2000 members with the vast majority being small businessmen.

In submitting these comments we wish to convey the growing concern of our industry with the existing and rapidly accelerating energy crisis. The scope of the problem touches all segments of our economy and manifests itself in a variety of ways. Its very complexity belies any simple solution and we do not presume to offer one here today. It is our sincere hope, however, that the Congress not only collect information as to the nature and extent of the crisis as called for in S. Res. 45, but appreciate the need to answer the conclusions made by its own commissions through firm and positive action.

The Car and Truck Rental and Leasing industry provides commerce, industry and the traveling public with an economical and trustworthy mode of transportation. About 35% of the car rental business is transacted on airport locations to businessmen for business reasons as well as to tourists flying to their vacation destination and renting automobiles there to avoid driving from their homes to ultimate destination locations. This provides a high quality, flexible and economical transportation service which is demanded by your highly mobile and urban society. Truck rental and leasing is conducted in a variety of ways with a not small segment furnishing light and medium size vans and trucks for the one-way movement of household goods and belongings and under lease arrangements, larger units to serve the needs of industry. While industry statistics are not available, information gathered by the American Trucking Association reveals that trucks accounted for 430 billion ton miles in 1971, 22.3% of total registered ton miles by all forms of transportation. Since rail service has been reduced or terminated in many communities, a highly mobile over the road transportation service is absolutely essential to our growing economy.

Because the service which we offer is mobility, our concern is with the impact of possible shortages of gasoline and other petroleum products. With the advent of the jet aircraft, the interstate system and our urban society, as well as the diminishing capabilities of the railway industry, which is currently so widely reported in the public press these days, the cars, truck and one-way rental has become a way of life. With more than half of the United States population licensed to drive and the rental industry growing at better than 20% a year, petroleum is crucial. As an industry, we are one of the country's largest consumers of petroleum products. We therefore are vitally concerned that ways be found to insure the continued supply of gasoline and diesel fuel to all segments of the transportation industry and at prices that are within the reach of even the smallest consumer.

According to government figures, the demand for gasoline rose at an annual rate of 5% during the period from 1968 to 1970 and increased at the rate of 7% during the years 1971–1972. At the same time refinery capacity rmeained relatively constant. Common sense points to continued increasing demand in the future. We have been encouraged with the announcement of the administration's new oil import program and are hopeful it will have a stimulating effect on the construction of new refineries and expansion of existing facilities. In the long run, however, certainly more incentive needs to be given to encourage the exploration and production of domestic crude oil. In this context the long overdue laying of the Alaskan pipeline and use of the oil shale deposits in the far west are but two examples of vast energy resources which have yet to be developed.

We are not unmindful of the efforts which have been made by members of this committee and the Congres to grapple with our energy shortages. According to "A Review of Energy Policy Activities of the 92nd Congress", prepared at the request of Senator Jackson, pursuant to S. Res. 45, nearly 350 bills and 30 resolutions were introduced during the 92nd Congress covering a wide range of fuel and energy policy issues. Subject areas included congressional studies of fuels and energy policies, oil shale development, antitrust and monopoly considerations. tax matters and many more. According to the Energy Policy Activities report, however, no positive action was taken on these proposals.

Surely the evidence gathered by this committee as a result of its extensive hearings into the present and long range energy requirements of the United States must support that conclusive action be taken one way or another. For our part, we urge that immediately steps be taken to stimulate the development of existing oil deposits within the United States and that further long range programs be implemented which will insure the continued supply of petroleum products to all users at a reasonable price.

ENERGY CRISIS

MAY 21, 1973.

R. L. THORFINNSON
R. W. BIRD

It's here—the much heralded "gas crunch"!

On Tuesday, May 8, our Atlanta gas supplier, BP, advised us they could furnish us no more gas (also claimed they were cancelling all other commercial users except government agencies).

We had 2,000 gallons in our bulk tanks. Immediately we began filling our cars with only ¼ tank of gas, with a note to customers advising them of the situation and urging them to get a fill-up at retail at earliest possible stop (at our expense, of course). Since then we have been able to get 9,000 gallons on "black market" (9¢/gal. more). As of May 21, 1973, we still had about ½ of this and we're on the lookout for more. Continue to fill tanks only ¼ full.

Supplier at Las Vegas refused to renew our expired contract. Seven of eight other major suppliers refused to bid—one bid with an increase of 4¢ per gallon, and already has been unable to fill our first order.

Other reported and anticipated increases and supply shortages as of May 1 are mentioned in attached report of A. O. Bingenheimer.

FUEL SUPPLY

MAY 1, 1973.

V. O. ABRAMSON
A. O. BINGENHEIMER

The fuel supply situation for National Car Rental is quickly becoming critical. What began as isolated circumstances of contract cancellations and slight upward price raises bid by the oil companies has suddenly taken on greater significance as oil company after oil company indicate their inability or unwillingness to supply refined products in sufficient quantities under present price structures. The initial situation appeared to be confined to certain companies in certain geographic locales. Although complete information is not available in every single city some representative market situations are:

Jacksonville, Florida, contract expiring May 1973. A price increase of 5 to 7 cents per gallon (present price 11.95 cents) is anticipated. No supply problem is anticipated in this area by supplier Mobil.

Orlando, Florida, is at present operating on a 30 day extension of last years contract. A price increase of 4 to 5 cents per gallon over the present 19.32 cents is anticipated *if* Texaco can supply quantities of fuel necessary.

Seattle, Washington, is presently obtaining fuel without a contract on an agreement basis with Shell. They have had a 1.36 cent per gallon price increase over the past year. They are anticipating additional price increases of 3.4 cents per gallon but not supply problems.

Las Vegas, Nevada, contracts have expired. Five oil companies and suppliers were soliciated for bids, three refused to bid, two offered bids with an increase of 6 cents per gallon, quantities to be limited.

San Jose, California, contracts are based on market performance and have increased one cent per gallon since January. Additional price increases in the neighborhood of 5 cents per gallon are anticipated between now and the Fall months.

Cincinnati, Ohio, has had a 4 cent per gallon increase since January of this year. Supply quotations were scolicited from several companies. All but one was unable to offer a quotation. The present supply agreement allows for price increase after a 30 day notice to National and further increases in the neighborhood of 3 to 4 cents per gallon are anticipated over the Summer months.

Dayton, Ohio, has had a price increase of 3 cents per gallon last week and is anticipating additional increases by year end of 5 to 7 cents per gallon. They are not however, anticipating any supply problems.

Washington, D.C., has been advised by American Oil Company that their contract expiring in August will not be renewed.

Baltimore, Maryland, has also been advised by American Oil Company that their contract which expires in August will not be renewed. No official refusals have been made from suppliers from these locations since solicitations are not yet complete.

Philadelphia's contract with American Oil Company expires May 21 and AMOCO declines to bid on a new contract. Only one other bid has been obtained by us in the area with a price increase of 5.45 cents per gallon.

Winston-Salem, Greensboro, N.C., contracts have expired. Texaco continues to supply fuel as available but a price increase of 5 to 7 cents per gallon is anticipated.

Syracuse, New York's contract expires May 1. Gulf Oil will supply fuel at a 5 cent per gallon increase in an open agreement allowing upward fluctuation in accord with the bulk market.

New York, New York's contract expired April 18, Gulf has proposed a five cent per gallon increase with upward fluctuations allowed in accord with bulk markets. No quantity supply problem is anticipated in either of these areas.

I do not presently have complete and factual information for all other areas but certain conclusions can be inferred from information we do have. In essence, we can anticipate price increases generally in the range of 6 to 8 cents per gallon depending upon the ready availability of refined products. Those areas which have available to them good or surplus supplies of refined products can expect continuing supplies of fuel at lower costs. Those areas to which products must be transported by more expensive means are going to have supply problems and can expect higher supply increases. In all areas which have contracts being renewed are having to agree to price structures based upon price fluctuation of the bulk refined product market. This of course is not reflected in presently anticipated price increases. It is possible that increases will amount to more than 10 cents per gallon by year end if the dire predictions of supply shortages become true. This would represent an average increase in cost per gallon of over 70 percent. In addition to this direct cost increase we have experienced a substantial increase in consumption (14 to 20 percent) of fuel by the 1973 model vehicles. This increase in fuel consumption is generally attributed to engine design and systems modified for pollution control devices installed on the new model cars.

Many locations are taking measures to reduce consumption and usage because supplies in certain areas will be curtailed to some extent. Minneapolis is one city in this category. In summation, it is predictable that fuel costs, if conditions in the fuel market continue their present trend, it will be roughly ⅓ to ½ more by year end.

It is doubtful that our operating cities can absorb the predicted price increase under the present rate structures. At this point there is, from an individual city basis, no apparent means of relief. Almost all offers we have made to oil companies for exclusive price control contracts have been rebuffed.

If you wish further conversation on this please feel free to call me. I will advise from time to time as changes in the situation occur or additional facts become available.

MOBIL OIL CORP.,
Los Angeles, Calif., April 18, 1973.

NATIONAL CAR RENTAL,
Las Vegas, Nev.

GENTLEMEN: According to our records, our present commitment to supply your fuel requirements will soon expire. Because of current conditions in your area, we find that we no longer will be in a position to supply your needs when the commitment expires.

We sincerely appreciate your past business, regret having to take this action, and take this means to give you advance notice so that you can begin looking for an alternative source of supply.

Yours very truly,

O. W. CHANDLER,
Western Division Commercial Manager.

SHELL OIL CO.,
Downey, Calif., April 18, 1973.

NATIONAL CAR RENTAL SYSTEM INC.,
Las Vegas, Nev.
(Attention of Gary L. Smith).

GENTLEMEN: We regret we must submit a "No bid" for your gasoline requirements for the year beginning May 1, 1973.

Please retain our name on your bidders list for your future requirements.

Yours very truly,

E. D. DRONBERGER,
Manager.

UNION OIL CO. OF CALIFORNIA,
San Diego, Calif., April 19, 1973.

NATIONAL CAR RENTAL SYSTEM, INC.,
Las Vegas, Nev.
(Attention of Mr. Gary L. Smith, City Manager).

GENTLEMEN: We are in receipt of your request for quotation, and thank you for this consideration.

We regret that we will be unable to offer a quotation at this time, but request you keep our firm's name on your Bid Invitation List for receipt of future invitations.

Very truly yours,

P. T. VAN BERKHOUT,
Manager, Operations and Services.

NATIONAL CAR RENTAL SYSTEM, INC.,
Las Vegas, Nev., April 12, 1973.

MR. JIM MCFADDEN,
Texaco, Inc.,
Las Vegas, Nev.

DEAR SIR: We are now accepting gasoline bids for our fleet usage requirements.

Requirements: Regular gasoline only—Annual minimum, 144,000 Gallons; annual maximum, 400,000 Gallons.

Length of contract: One year commencing May 1, 1973.

Please submit your bid to the above address, prior to April 27, 1973, so that a decision can be made.

Thanking you in advance, I remain

Very truly yours,

GARY L. SMITH,
City Manager.

NATIONAL CAR RENTAL SYSTEM, INC.,
Las Vegas, Nev., April 12, 1973.

STANDARD OIL COMPANY OF CALIF.
Western Operations, Inc.
Wholesale Distributors, Las Vegas, Nev.

DEAR SIR: We are now accepting gasoline bids for our fleet usage requirements.

Requirements: Regular gasoline only.—Annual minimum, 144,000 Gallons; annual maximum, 400,000 Gallons.

Length of contract: One year commencing May 1, 1973.

Please submit your bid to the above address prior to April 27, 1973, so that a decision can be made.

Thanking you in advance, I remain

Very truly yours,

GARY L. SMITH,
City Manager.

NATIONAL CAR RENTAL SYSTEM, INC.,
Las Vegas, Nev., April 12, 1973.

HUMBLE OIL & REFINING CO.,
Marketing Department,
Las Vegas, Nev.

DEAR SIR: We are now accepting gasoline bids for our fleet usage requirements

Requirements: Regular gasoline only.—Annual minimum, 144,000 Gallons; annual maximum, 400,000 Gallons.

Length of contract: Two years commencing May 1, 1973.

Please submit your bid to the above address prior to April 27, 1973, so that a decision can be made.

Thanking you in advance, I remain

Very truly yours,

GARY L. SMITH,
City Manager.

NATIONAL CAR RENTAL SYSTEM,
May 17, 1973.

Urgent

Gas is our lifeblood, and we're hemorrhaging!

But we intend to fight for our life with every weapon at our disposal—management planning—business negotiation—political pressure—and if necessary, legal action.

To do this we need *FACTS!*

The tool to give us these facts is the attached survey. The most important task you have right now is to fill in the form and return it as indicated. If we get it back in time, we have the opportunity to put it to use in a way which may directly produce favorable results in the near future.

Two copies are enclosed. Fill in one, Xerox a copy for your file, and send it in. Keep the other blank copy. Whenever there is a change in the information as submitted, fill in a new one with the changed information and send it in, but always keep at least one blank copy for future use in the case of further changes. If you do not send in changes, we will assume the info you have sent in remains current.

Thanks for your help in this most vital effort.

P. L. RILEY.

Enclosure.

GASOLINE/FUEL SUPPLY SURVEY

May, 1973

CITY NUMBER ——— REGION ———
CITY NAME ———————————

01. Are fuel storage/dispensing facilities located any place other than your normal service locations?

01:01 ——— Yes*
01:02 ——— No

*If you answer "Yes" (01:01), please indicate the address of location where facilities are located.

02. How many storage tanks do you have for:

02:01 ———Regular grade gasoline
02:02 ———Premium grade gasoline
02:03 ——— 2 Diesel fuel
02:04 ——— Other fuels

03. What is your total storage *capacity* for:

03:01 ——— gals.—Regular grade gasoline
03:02——— gals.—Premium grade gasoline
03:03——— gals.—#2 Diesel fuel
03:04———gals.—Other fuels

04. What is the number of dispensing pumps for:

04:01———Regular grade gasoline
04:02 ——— Premium grade gasoline
04:03 ——— #2 Diesel fuel
04:04 ———Other fuels

05. What is the yearly quantity of products used or to be used:

REGULAR GASOLINE

05:01 1971 ——— gals.
05:02 1972 ——— gals.
05:03 1973 ——— gals. (to date)
05:04 1973 ——— gals. (for remainder of year—estimated)
05:05 1974 ——— gals. (estimated)

PREMIUM GASOLINE

05:06 1971 ——— gals.
05:07 1972 ——— gals.
05:08 1973 ——— gals. (to date)
05:09 1973 ——— gals. (for remainder of year—estimated)
05:10 1974 ——— gals. (estimated)

NO. 2 DIESEL FUEL

05:11 1971 ——— gals.
05:12 1972 ——— gals.
05:13 1973 ——— gals. (to date)
05:14 1973 ——— gals. (for remainder of year—estimated)
05:15 1974 ——— gals. (estimated)

OTHER FUELS

05:16 1971 ——— gals.
05:17 1972 ——— gals.
05:18 1973 ——— gals. (to date)
05:19 1973 ——— gals. (for remainder of year—estimated)
05:20 1974 ——— gals. (estimated)

06. What is the price you paid per gallon for delivered product on the indicated date (NOTE: Exclude *all taxes* in the computation of price).

REGULAR GASOLINE

06:01 On 05/01/71 ——— per gal.
06:02 On 05/02/72 ——— per gal.
06:03 On 01/01/73 ——— per gal.
06:04 On 05/01/73 ——— per gal.

PREMIUM GASOLINE

06:05 On 05/01/71 ——— per gal.
06:06 On 05/02/72 ——— per gal.
06:07 On 01/01/73 ——— per gal.
06:08 On 05/01/73 ——— per gal.

NO. 2 DIESEL FUEL

06:09 On 05/01/71 ——— per gal.
06:10 On 05/02/72 ——— per gal.
06:11 On 01/01/73 ——— per gal.
06:12 On 05/01/73 ——— per gal.

OTHER FUELS

06:13 On 05/01/71 ——— per gal.
06:14 On 05/02/72 ——— per gal.
06:15 On 01/01/73 ——— per gal.
06:16 On 05/01/73 ——— per gal.

07. Has your supplier *FORMALLY* notified you of a price increase to be in effect at any time in the next 6 months for:

REGULAR GASOLINE

07:01 ——— Yes*
07:02 ——— No
———¢ per gal. effective date ———

PREMIUM GASOLINE

07:03 ——— Yes*
07:04 ——— No
———¢ per gal. effective date ———

NO. 2 DIESEL FUEL

07:05 ——— Yes*
07:06 ——— No
———¢ per gal. effective date ———

OTHER FUELS

07:07 ——— Yes*
07:08 ——— No
———¢ per gal. effective date ———

*If the answer to any part is "Yes," please forward a copy of the notification.

08. Has your supplier *INFORMALLY* notified you of any anticipated price increase in the next 6 months for:

REGULAR GASOLINE

08:01 ——— Yes**
08:02 ——— No
———¢ per gal. effective date ———

PREMIUM GASOLINE

08:03 ——— Yes**
08:04 ——— No
———¢ per gal. effective date ———

NO. 2 DIESEL FUEL

08:05 ——— Yes**
08:06 ——— No
———¢ per gal. effective date ———

OTHER FUELS

08:07 ——— Yes**
08:08 ——— No
———¢ per gal. effective date ———

**If the answer to any part is "Yes," indicate the following:
08:09 the person's name ———
08:10 the person's title and/or position ———

Briefly describe the method of notification (i.e., letter, oral, telephone, in person, etc.) and the date and place of notification:
08:11 ———

Note: The term "jobber" as used in Question No. 09 refers to an independent businessman who is purchasing petroleum products from a major branded or unbranded refiner and reselling them independently of the major company, either under a major brand or as unbranded products. The term "refiner/marketer" as used in Question No. 09 refers to a company which refines and markets products through company controlled locations. Refiners may also sell to "jobbers" but generally do not control jobbers other than selling or consigning refined products to the jobber.

09. If you purchased gasoline or fuel under the terms of, or subject to the terms of a contract or agreement since January 1, 1971, please indicate on the appropriate sheet all data which applies; The columns are explained as follows:

Column 1. Name of supplier—indicate the *brand* name your supplier uses.
Column 2. Class of supplier—The class will be "refiner/marketer"—code RM—or "jobber"—code JM
Column 3. Start date—The date the contract became effective
Column 4. End date—The termination date of contract
Column 5. Price firm?—yes or no
Column 6. Price subject to change? If "Yes" in Column 5: How? i.e., market price, oil gram, quantity conditions, etc.

GASOLINE

Name of supplier	Class of supplier	Start date	End date	Firm price	Why price is subject to to change

NO. 2 DIESEL FUEL

Name of supplier	Class of supplier	Start date	End date	Firm price	Why price is subject to to change

OTHER FUELS

Name of supplier	Class of supplier	Start date	End date	Firm price	Why price is subject to to change

10. Are you presently purchasing gasoline or fuel under the terms of, or subject to an agreement or contract:
10:01 ———Yes**
10:02 ———No*

*If you answered "No" (10:02) skip to Question No. 11.

**If you answered "Yes" (10:01), please answer the following and furnish a clear, complete and legible copy of the contract (if necessary forward the original and copies will be made and the original returned).

During the term of the contract or agreement is the *supplier* required to furnish a certain minimum amount of products?
10:03———Yes
10:04———No
If the answer is "No" (10:04), is it because their contract has an "escape clause" in case of limited supply?
10:05 ———Yes
10:06 ———No
11. Do you anticipate any difficulty in obtaining sufficient quantities of gasoline or fuel during the remainder of the year 1973?

GASOLINE:

11:01 ———Yes
11:02 ———No

FUELS:

11:03 ———Yes
11:04 ———No
12. If Question No. 11 is answered "Yes" (11:01 and 11:03) will you be able to obtain sufficient quantities from another source?
12:01 ———Yes
12:02 ———No
13. If you answered "Yes" (12:01) to Question No. 12, have you established a source of supply?
13:01 ———Yes
13:02 ———No
If "Yes" (13:01), what is the additional cost per gallon anticipated to be?
13:03 ———¢ per gal.
14. If you answered Question No. 13 as "Yes" (13:01) please elaborate on your supply (i.e., who you contracted, did you ask for a contract?, did you get one?, if not, why? Can you obtain sufficient supplies without a contract?, at reasonable prices?, unreasonable prices?, who told you what, why, etc.,?
14:01 ___
15. Additional Comments:
15:01 ___

Copies of Selected Questions

QUESTION 1. WHAT IS THE YEARLY QUANTITY OF PRODUCTS USED OR TO BE USED?

[In gallons]

	Regular	Premium	No. 2 diesel	Other fuels
1971	13,247,000	269,000	2,278,000	2,000
1972	14,989,000	266,000	2,321,000	2,000
1973 (through April)	6,888,000	0	962,000	1,000
1973 (remainder)	11,745,000	172,000	1,974,000	1,000
1974 (estimated)	20,154,000	309,000	3,046,000	3,000

QUESTION 2. WHAT IS THE PRICE YOU PAID PER GALLON FOR DELIVERED PRODUCT ON THE INDICATED DATES? (NOTE: EXCLUDE ALL TAXES IN THE COMPUTATION OF PRICE)

	Regular							
	May 1, 1971		May 2, 1972		January 1, 1973		May 1, 1973	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Less than 10.0	0	0	0	0	0	0	0	0
10.1 to 12.0	18	23.7	22	27.2	20	24.4	13	16.3
12.1 to 14.0	22	28.9	25	30.9	30	36.6	21	26.3
14.1 to 16.0	11	14.5	8	9.9	7	8.5	8	10.0
16.1 to 18.0	3	4.0	5	6.2	4	4.9	10	12.5
18.1 to 20.0	7	9.2	5	6.2	5	6.1	9	11.3
More than 20.0	15	19.7	16	19.8	16	19.5	19	23.8
	76	100.0	81	100.0	82	100.0	80	100.0

QUESTION 3. HAS YOUR SUPPLIER FORMALLY NOTIFIED YOU FOR A PRICE INCREASE TO BE IN EFFECT AT ANY TIME IN THE NEXT 6 MONTHS FOR—

	Regular		Premium		Diesel	
	Number	Percent	Number	Percent	Number	Percent
Yes	12	14.0	1	1.2	4	4.7
No	74	86.0	82	98.8	81	95.3
Total	86	100.0	83	100.0	85	100.0
If "Yes," when?						
June	10	83.3			2	50.0
July	2	6.7				
August					1	25.0
September			1	100.0		
October					1	25.0
November						
Not known						
Total	12	100.0	1		4	100.0

QUESTION 4. HAS YOUR SUPPLIER INFORMALLY NOTIFIED YOU OF ANY ANTICIPATED PRICE INCREASES IN THE NEXT 6 MONTHS FOR—

	Regular		Premium		Diesel (percent)
	Number	Percent	Number	Percent	
Yes			6	7.1	
No	84	100	78	92.9	84
Total	84	100	84	100.0	100

Question 5. a. What kind of a supplier do you have?

Refiner/Marketer	64
Jobber	4
Other	3
Total	71

b. Name of supplier?	*Percent*
American Oil	9.5
British Petroleum	1.2
Chevron	
Gulf	14.3
Mobil	15.5
Phillips	3.6
Shell	8.3
Sunoco	
Standard	8.3
Texaco	10.7
Union 76	
Other	11.9
No response	16.7
Total	100.0

C. DO YOU HAVE A FIRM PRICE FOR THE CONTRACT FOR GASOLINE?

	Number	Percent
Yes	37	54.4
No	31	45.6
Total	68	100.0

D. WHY PRICE IS SUBJECT TO CHANGE?

	Number	Percent
Predetermined escalator	0	0
Supplier option	24	68.6
Tank wagon market	9	25.7
Oil grams	2	5.7
Total	35	100.0

QUESTION 6. DO YOU ANTICIPATE ANY DIFFICULTY IN OBTAINING SUFFICIENT QUANTITIES OF GASOLINE OR FUEL DURING THE REMAINDER OF THE YEAR 1973?

	Gasoline		Fuels	
	Number	Percent	Number	Percent
Yes	32	40.5	5	15.2
No	47	59.5	28	84.8
Total	79	100.0	33	100.0

QUESTION 7. IF QUESTION 6 IS ANSWERED "YES" WILL YOU BE ABLE TO OBTAIN SUFFICIENT QUANTITIES FROM ANOTHER SOURCE?

	Number	Percent
Yes	6	21.4
No	22	78.6
Total	28	100.0

QUESTION 8. IF YOU ANSWERED "YES" TO QUESTION 7, HAVE YOU ESTABLISHED A SOURCE OF SUPPLY?

	Number	Percent
Yes	6	100
No	...	
Total	6	100

IF "YES" WHAT IS THE ADDITIONAL COST PER GALLON?

	Number	Percent
Less than 0.02	1	14.3
0.021 to 0.04	3	42.8
0.041 to 0.06	3	42.8
0.061 to 0.08	...	...
70.08	...	...
Total	7	100.0

NATIONAL CAR RENTAL SYSTEM,
June 1, 1973.

To bring you up to date on exactly what has happened in San Francisco on the above subject, Shell Oil Company has advised us that when our contract expires July 31st, they will be unable to furnish us with any gas after that date.

Bob McHugh has also advised that New York City has been put on rationing, based upon last year's usage. In other words, they will not be allowed to purchase any gas over the quantity they purchased from Gulf in the calendar year 1972.

I will keep you informed of any changes.

BEMISS ROLFS.

Mr. THORFINNSON. There's one other thing I'd like to comment on by stepping out of the role that I'm appearing here in and talking as a member of a school board, because here again we're seeing an economic impact. In our school board district, we have made the decision to——

Representative FRASER. What school board?

Mr. THORFINNSON. Orono Independent School District, which I think the Senator is familiar with.

Chairman HUMPHREY. That's the grandchildren. Let's take care of that school district now. It beats all how a fellow gets interested all of a sudden.

Mr. THORFINNSON. We have made the decision that we are going to invest in additional storage tanks, in free heating equipment, and in the conversion equipment so that we'll be able to burn No. 5 and No. 6 oil as our standby fuel for this coming season, because we have not been able to get any bids at all from our prior suppliers on No. 2 fuel oil for the coming season as standby fuel for us. Unless we take these steps, if and when we're cut off on the gas, we would just have to shut down the schools.

Representative FRASER. Were you cut off last winter?

Mr. THORFINNSON. There were only 2 days last winter where we weren't able to operate at full temperature and at no time did we have to shut the schools down.

Representative FRASER. Did you have to go off gas?

Mr. THORFINNSON. We were off of gas on I think seven occasions, but for no longer than probably 3 days at any one time.

Chairman HUMPHREY. Of course, you had the warmest winter last year that we have had for some 30 years.

Mr. THORFINNSON. That's right. Our major problems occurred in December, not after the early part of January, because of that.

Chairman HUMPHREY. I think the Lord gave us 365 days to come to our senses and I think He's probably getting a little impatient with us now.

Mr. THORFINNSON. One thing that obviously will help, I'll have to assume, is what is being done on the natural gas supply, and if that minimizes the interruption of service it will help alleviate that shortage of fuel oil.

Chairman HUMPHREY. It's interesting to note these price ranges that we're hearing here, and this is part of the genuine jurisdiction of the Joint Economic Committee, because we do deal with the whole subject of the controls. The Economic Stabilization Act, as you know, the Council of Economic Advisers—these are our areas.

Mr. THORFINNSON. It's interesting to note the pattern. Where one major was a supplier in one city, they refuse to bid now, but they turn up as a bidder in another city at a very high price, and the previous supplier there won't bid.

Chairman HUMPHREY. And you have that documented in your report?

Mr. THORFINNSON. Yes.

Chairman HUMPHREY. Now, the 23 majors remained under mandatory price controls as in phase II when we went to the so-called phase III. Those controls provide for a 1½ percent overall price increase averaged over all petroleum products, so they give a lot of discretion to the companies, but these price increases that we're hearing today as well as what we've got down in Illinois and what we heard about in Ohio are outlandish.

You know this committee and different Senators are going into their respective States and holding hearings as a part of building a national record instead of just staying in Washington and having people come there. We're coming out here so that we can hear from more and more people. We're getting more of just what you're saying, that contracts are not being renewed by original contractors in a particular city and yet in another community that same company will be entering into an entirely new contract with a new customer at a much higher price. These patterns are very disturbing.

I hesitate to make blanket charges because I don't believe in that unless we have documentation, but one of the amendments that we're offering—and I hope will be adopted, I think it will on Monday of this coming week—is to instruct the Federal Trade Commission and the Justice Department's Antitrust Division to take a good look at these marketing practices to see what's going on here, because there's some going on that's over and beyond just the shortage of fuel.

For example, the number of aircraft flights the military is using is way down compared to a year ago despite the bombings in Cambodia, and any of you that have been in the Air Force or know anything at all about aircraft know that these jet bombers and jet fighters just gulp it up. They're like hungry alligators, just chewing up that fuel, and the Defense Department's requirements for JP, I forget the number, but jet fuel is way down.

Last year I caught the Defense Department—at the very time that we out here were just struggling to get fuel oil, they were buying up 8 million barrels of jet fuel in the same market with demand delivery by April 1. Well, I want to tell you, that's one battle the Defense Department lost. I felt like Horatius at the bridge. I took them on. I said, "What are you doing? I mean, it gets cold in Minnesota and after all that jet fuel is kerosene, so to speak, and it's similar, it has an interrelationship with our No. 2 fuel oil."

So we had a choice as to whether we were going to fill up 8 million barrels of jet fuel for the Defense Department to have in reserve—I guess they thought they were going to have another war the next day or something—or whether we were going to have some fuel out here in Minnesota and all through the Midwest. By the way, they applied it to diesel; all of this is out of the same barrel of crude.

I think I should note here also, by the way, if representatives of the majors are here, we welcome your testimony. We're not conducting any vendetta or anything like that. We asked the majors to testify out here in this hearing and as yet they have not chosen to do so, and I would welcome them if they're here and give them an opportunity to present their case. We're having trouble getting this, and in the meantime the majors are locking up these markets, and I don't like it. I want to tell you we intend to do something about it.

All right. Now, we come to Mr. Denn. Mr. Denn, where did I lose you?

UNIDENTIFIED VOICE. He hasn't returned yet. He's got a statement all prepared and the secretary lost the most important page.

Chairman HUMPHREY. I almost had the same thing happen to me this morning.

Mr. Bowar, am I right in pronunciation?

Mr. BOWAR. Yes.

Chairman HUMPHREY. Mr. Bowar is with the Minnesota State Automobile Association, editor of the Minnesota Motorist. I want to compliment you on your publication. I read it regularly. It's one of the best tourist pieces we've got in Minnesota. The Governor ought to pay you a little extra for that. Go ahead, sir.

STATEMENT OF C. L. BOWAR, EDITOR, THE MINNESOTA MOTORIST, MINNESOTA STATE AUTOMOBILE ASSOCIATION, BURNSVILLE, MINN.

Mr. BOWAR. Mr. Chairman and Congressman Fraser, I want to digress from my prepared statement which you have copies of for the record.

Chairman HUMPHREY. Again, we'll make those available for the record.

Mr. BOWAR. As you know, Mr. Chairman, I represent a motoring organization in this State. We are the American Automobile Association affiliate, with almost 400,000 members. Our concern in this petroleum situation is not only from the standpoint of people taking vacation trips, but more importantly, I think for most of our members and the public generally, the automobile is an absolute necessity in making a livelihood. So, I would like to address my remarks to you first on what we as an organization of motorists are trying to do to get a handle on how serious the situation is; second, on what we are advising the motoring public to do to conserve the available supply; and finally at the tail end, perhaps a few observations on some of the thoughts at the Federal level on a gas tax increase, 50 mile-an-hour speed limits, and so on.

Chairman HUMPHREY. Thank you.

Mr. BOWAR. Now, we are one of 62 American Automobile Association offices in the country that currently are engaged in what we call a Fuel Gauge Report. Essentially what this involves is a weekly check by telephone with our contract stations at key spots around Minnesota. For example, we start up in the iron range and go through western Minnesota and down through the south, so we get a good spread. May I suggest also that once this whole thing is in form—it just started this past week—both you, Mr. Chairman, and Congressman Fraser I think will get a handle on how Minnesota and the Midwest are comparing on fuel supply as far as motorists are concerned with the rest of the Nation.

Representative FRASER. Who are you actually checking with?

Mr. BOWAR. We are checking with our own AAA contract stations. We are talking directly to the operator about his problems and the problems we are having with the motorist specifically. For example, in our survey just this past week—and I have a copy, an example that I can leave with the committee—this is what we found. First of all, that there is no critical shortage on the one hand, but that there is a definite and spotty shortage depending on circumstances. For example, company owned and operated stations seem to have little or no problem getting adequate fuel supply. Most other stations, however, are now on an allocation basis, as you probably know, getting as much but no more fuel than they purchased last year. Some station operators do not regard this as an allocation system. They say, "Well, I'm getting the same as I got last year." Some are being cut back to 90 percent of last year, some back to 85.

Now, the hardest hit by the situation, according again to this survey, seem to be the independent brands; then the independently owned stations of major brands; and finally those stations which, for any reason are experiencing a substantial increase in volume of business over last year. A specific example; a station which last year had the street all torn up in front of his place of business and did a very low volume; this year the street is all repaired and he cannot by any stretch of the imagination get an adequate supply to take care of his customers. Now, what are the stations doing about this? Many of them are staying open shorter hours. There are very few 24-hour stations any more.

Chairman HUMPHREY. I'll say that's the case. Where you start running short of gas on the highway, you are in trouble.

Mr. BOWAR. Now, some of them, of course, are closing for a full day, and maybe it is a convenience to take a Sunday off to enjoy fishing in Minnesota. A few of them are already limiting gallonage to individual patrons to $2 per customer or $3 or 10 gallons, whatever it may be, and some are now starting to limit sales to trucks to 25 gallons. Maybe Mr. Denn will talk more about that later.

How about the price per gallon? Our survey showed, in general, that there has been an increase of 2 cents per gallon during the last 2 months. In communities where the price per gallon has been depressed, so-called gas wars, St. Cloud, Little Falls, the increase has been as much as 7 and 8 cents per gallon. There is no such thing as a gas war any more. Those beautiful days are gone forever.

Now, how do stations feel about this gasoline shortage? We asked them this question. Many of the station operators are rather happy about it. Those which have been engaged in a price war, of course, have suddenly found out that they can command the full price per gallon and are doing so. Other stations are finding out that the reduced hours which they've been able to put into effect allow them to stay open only during the best hours of the day when traffic is heaviest, when the repair business is best. In other words, they feel that they are operating close to their maximum profit potential. That's the good news.

Now, what is the outlook for next week? We asked them that and we will continue to do so in these surveys. No change according to most of the men we interviewed. They say their gas supply will still be limited and several of them noted that they expect their diesel fuel supply to be drastically limited in the near future, by at least 25 percent. As for motorists running out of gas, we can find no evidence that any motorist doesn't get enough to keep going.

This is a difficult situation. People call us and say, "Should we reduce our travel plans?" and we say, "Well, no, but let us give you some tips on how you as an individual can contribute toward helping and alleviating this shortage." We issued a news release on that, for example—a copy of that, Senator, is with my prepared statement—and in this we point out such things as that even the tire pressure of your automobile makes a difference; if it calls for 28 pounds of pressure, pump them up to 30. You actually will be saving gas. Most important of all, even more important than the speed reduction, is having your car tuned up.

Now, this we found out very dramatically, and it is more than coincidence. Our current publication which just came off the press deals with this situation, and the particular story is entitled, "How to save $100 a year on gasoline." It was based on a controlled test with a 1970 Chevrolet which we took out and drove around the Twin City area using not-too-conservative driving habits, admittably gunning it when we went on the freeway, jack rabbit starts at stop signs and right up to the top speed limit. The car had not been tuned up. We brought it in. We gave it a complete tune up: spark plugs, points, condenser, so on, air filter; and we did a lot of these other things like pumping up the tires, and then we adopted conservative driving habits. For example, 50 miles an hour on the freeway, no gunning on the ramps and so on, and we found out that the gasoline mileage on that 1970 Chevrolet went from 12.5 miles per gallon to 16.1 miles per gallon. That's an increase of 28.8 percent according to the guy who wrote this story. But also, interpreting it another way, if the motorists would just adopt these two things—first of all getting their cars tuned up and secondly conservative driving habits—the increase in gasoline mileage would be 22.5 percent. And I submit that this could be a very sizable factor in the problem.

Chairman HUMPHREY. I think that's a very constructive suggestion. Of course, this all depends upon the motorist's self discipline and upon mass education. Here's where the popular media, the electronic media, can be of great help. A concentrated campaign, and I don't mean just by taking the automobile association news release, important as that is. I want to commend you for what is obviously a relatively scientific survey that you made. Now if we could have continuous reminders to the American public on how we can conserve on gasoline it would do a great deal because, you know, no one likes to meet these mandatory programs. You just don't like them.

First of all, when you run them out on the Nation's capital, they tend to get sticky. If you break them up in the districts and States that tends to introduce such variability that people say, "Why can't I do it like they do it over there?" If you are in Government you find out that everybody is really on your back. They really don't like anything that's going on. That's about where you start. From there on out it gets worse. So, I mean, you know, having been around the circuit a bit I just know what happens with that sort of thing. Therefore, this kind of voluntary action on the part of the citizenry, if we could really encourage it, though it may not do whatever you had to do under that control test, let's say if you get a 5-percent or 6-percent saving on gasoline, that would be excellent. It would be a tremendous help.

I think the point needs to be made here in reference to the testimony that you've given, Mr. Bowar, that now in the summer the refineries are working at capacity on gasoline, and that is why, you know, there really is a place that you can always get some gasoline. Now, on the eastern seaboard they've had these 10-percent cuts I guess and they've limited the hours the stations stay open, and certain name brands operations have cut back. But what I worry about in Minnesota is not so much that we're going to be short of gasoline this summer, because

I think the gasoline we'll maybe be able to find; you know, if you are ingenious you'll get it someplace. But fuel oil, diesel fuel that relates to our food production and our mass transportation and to our Soo Line friend here and the railroad system and our trucks; that relates to the whole movement of gas and services across this country.

This could be a catastrophe because of what they're doing now. You see, gasoline prices are going up, but again I don't think there's half as much complaint about that as some people would assume. I think that everybody knows there may have to be an adjustment, and it's just a question of what kind of practices are involved here, whether these adjustments need to be 6 cents or only 2 cents or 1 cent or whatever they are. But what alarms me is that we ought to be building up some reserves of fuel oil in the summer.

I looked at the pattern over the years and it's in the summer months in the years past that, while we produced the gasoline that was necessary for the motorists, we built up the fuel oil and the other supplies; so that when the heavy crunch came on in the fall and the winter for these fuel-oil supplies we had them in the tanks and reserves ready to go. But today there's really very little accurate information as to whether or not there are any reserves at all worthy of being called reserves for the railroads, for the trucks, for the schools, for the home, for home heating.

In the meantime conservation measures of all kinds are needed. I mean, whether it's fuel oil, whatever it is, we just need to remember that it isn't here and we don't have unlimited supplies no matter how we look at the situation. Some people feel the majors are over-emphasizing the shortage. Let's just assume that the shortage isn't as bad as it appears to be, even though I think there is a shortage. There is nonetheless a need for conservation and a great need for it and we have to take these steps. Now, did Mr. Denn get back?

UNIDENTIFIED VOICE. Apparently not.

Chairman HUMPHREY. He represents a very important group here. I hope nobody's told him he ought not to be here.

Mr. BOWAR. May I offer one concluding remark?

Chairman HUMPHREY. Yes.

Mr. BOWAR. We applaud your clear thinking on a proposal to increase the Federal gasoline tax, but I would like to add that our organization doubts very sincerely that just increasing the Federal gasoline tax is going to give us a more adequate petroleum supply. We doubt sincerely for some of the reasons you just stated, the human element of people using their cars. They will continue to use them, and we don't see how such a measure will actually accomplish a greater supply.

[The prepared statement of Mr. Bowar follows:]

PREPARED STATEMENT OF C. L. BOWAR

Senator Humphrey and members of the Committee . . My name is C. L. Bowar and I am appearing here today in behalf of the Minnesota State Automobile Association, the AAA affiliate in Minnesota. We are an organization of motorists in this state, almost 400,000 strong and the gasoline shortage, whether it is a real shortage or a contrived one, is of primary importance to our members, particularly those who intend to take a trip by automobile of any distance in the months ahead.

In fact, this issue which your committee is probing this morning was also on the agenda of our Executive Committee which met yesterday.

We are keeping a constant watch on what is happening so we can properly advise our members. We are also advising our members and the motoring public generally that there are certain things which they, as motorists, can do to save on gasoline. Here, for example, is a copy of a news release which suggests ways in which they can do that.

Last month we ran controlled tests on a 1970 model automobile in a before-and-after performance type of test, specifically aimed at getting maximum gasoline mileage out of this particular car. The result of that test is a story which appears in this month's issue of the Minnesota AAA Motorist, entitled, "How to Save $100 a Year on Gasoline." It was our feeling that this appeal to the pocketbook might make a lot of sense to motorists.

Finally, we are one of a number of AAA clubs around the nation which is now engaged in a weekly reporting system on the gasoline shortage. We call this AAA's Fuel Gauge report. What it involves is a telephone survey of service stations at various geographical locations in the state, with questions directly to the operators of these stations. I have a copy of this week's report to leave with the subcommittee and I can conclude my remarks by giving you a brief rundown on what this week's survey told us:

(1) There is no critical shortage of gasoline on the one hand but there is a moderate, spotty shortage depending on circumstances.

For example, company owned and operated stations seem to have little or no problem. Most other stations, however, are now on an allocation basis, getting as much but no more fuel than they purchased last year. A few stations have been cut to 90% of last year's volume and one has been cut to 85%. Other stations are saying that, while they are not under any allocation system as such, they must be content with buying in smaller lots.

(2) The hardest hit by the situation seem to be the independent brands, then the independently owned stations of major brands, and finally those stations which, for any reason, are experiencing a substantial increase in volume of business over last year.

(3) What are the stations doing about it? Many are keeping open shorter hours; others are closing for a full day (such as Sundays or holidays); and a few are limiting gallonage to individual patrons. For example, some stations are now limiting gasoline sales to $2.00 for out-of-state visitors, some are limiting to a flat amount for all customers (such as 10 gallons per customer or $3.00 per customer) and a few are starting now to limit sales to trucks to 25 gallons.

(4) How about price per gallon? Our survey showed that, in general, there has been an increase of 2¢ per gallon during the last two months. In communities where the price of gasoline has been depressed (so-called gas wars) the increase has been as much as 7¢ and 8¢ per gallon.

(5) How do most stations feel about the gasoline shortage? Many of them are quite happy about it. Stations which have been engaged in a price war found that they can suddenly command the full price per gallon and are doing so. In short, there is no such thing as a gas war anymore. Other stations are finding out that the reduced hours allow them to stay open only during the best hours of the day when traffic is heaviest and the repair business is best. In other words, they feel that they are operating close to their maximum profit potential.

(6) What is the outlook for next week? No change, according to most of the men we interviewed. Gasoline will still be in limited supply. A few expect their diesel fuel supply to be limited in the near future.

(7) As for motorists running out of gas because of the gasoline shortage no! In no case did we find evidence of running out of gasoline because there was none available.

However, the shorter hours being adopted by many stations, plus the complete closing for a day or two by others, may very well mean that motorists will have some difficulty in finding help in an emergency particularly at night and on weekends.

Our survey also showed that the shortage is forcing some stations out of business, either independent brands or independently owned stations. During this past week, for example, 5 of our AAA contract stations (that we know of) went out of business, 3 of them solely because of the gas shortage.

As to whether or not people will be curtailing summer travel plans, our only gauge on this is the number of trip routing requests we receive. By that yardstick, the answer is no, people are not curtailing travel plans. They may be taking shorter trips, but they are still vacationing by automobile. Admittedly, this situation may very well change as we get into the peak summer travel season.

Finally, a news release this week notes that Secretary of Treasury, George P. Schultz, admits that the administration "is considering an increase in the federal tax on gasoline from 1¢ to 10¢ per gallon." We see no way that such an increase would increase the supply of gasoline and thus relieve the shortage. Instead, it would only add to the heavy tax burden already on motorists.

Attachment.

[From the Minnesota State Automobile Association News Release]

AAA OFFERS GAS-SAVING TIPS

BURNSVILLE, MINN.—Rumored gasoline shortages for this summer should not deter motorists from planning vacation trips, according to the Minnesota State Automobile Association (AAA). If shortages occur, the Auto Club says, they are expected to be only local in nature and should not strand motorists for lack of fuel.

However, the AAA urges that all motorists take steps to reduce their car's gasoline consumption to insure a plentiful gasoline supply throughout the state. And with gas prices on the upswing, motorists can minimize their travel expenses by making sure their car is getting the best possible mileage.

AAA officials offer the following tips to help you get the most out of your gasoline dollar:

*Make sure your car's ignition system is working at peak efficiency by checking spark plugs, points and timing. Be certain the air filter is clean and that the automatic choke is opening completely after warmup.

*See that tire pressure complies with the manufacturer's specifications. For highway travel, a pressure 4–5 pounds over the recommended pressure for a given load will improve mileage and stability.

*Travel light. Weight is a significant factor in determining mileage.

*Travel at steady, moderate speeds. Gasoline consumption increases rapidly for speeds over 55 m.p.h. Avoid "jack rabbit" starts and full-throttle passing when possible—they waste gas.

*Cut down on the use of accessories such as air conditioning by traveling early in the day and pulling off the road during the hottest hours.

These tips should help you to save money on your motoring vacation this summer, the motoring organization says. But the same principles applied to your everyday driving can save you money and go a long way to head off significant fuel shortages in the immediate future.

Chairman HUMPHREY. I wish somebody was a good enough engineer around here to tell us whether or not these fuel-saving devices and engineering techniques that were talked about over the years could not be—whether or not, No. 1, they are really available from a technology point of view and, No. 2, what the automobile industry is doing about it. You know, for years there's been the feeling that there were devices made, there was a kind of engine available, there was the technology to make the modern automobile conserve fuel. But there's argument that the majors have always stopped that from going into the cars, that the oil and the automobile companies wouldn't use that kind of equipment. I've been getting a flood of mail to this already. Immediately when you get a crisis, when you've got a problem like we have now, why people come in with this.

Again, you know, we build awfully big cars in this country. I've often wondered if we really need 400-horsepower cars to transport people across town. I forget the percentage, but better than 50 percent of all transportation in the automobile is in what we call an immediate encircled environment of about 50 miles from home, and it seems questionable to me whether I really needed those 400 horsepowers just to get me from my home to the Senate Office Building. I've never been quite sure that that's what I need and that's why there is now a movement to buy small cars. I understand small cars are at a premium now.

Mr. BOWAR. And this particular situation, Senator, I am sure is going to accelerate that trend toward smaller cars, compacts.

Chairman HUMPHREY. You know, the Japanese took over the small television because the American manufacturers of TV's thought everybody ought to have a console, a piece of furniture twice as big as that lectern with a screen on it. So, the Japanese came in with Sony; they just cleaned us out, you know, with this small TV operation. Now we let the Europeans and the Japanese come in and take the small-car market because we had engineers and automobile companies that were determined that you are going to buy a big car, and if they get an engineer that builds a small one, next year they've got it bigger. So, every time they get a small car they just can't wait to put on some more steel and make that car bigger. Now, maybe we're going to get down to a point where people understand that you really can get from your mother-in-law's home to your uncle's home in a car that hasn't an 8-cylinder engine with 475 horses under the hood. I opened up a hood under a car the other day and I said, "Man, you can go to the Moon on this thing. There are more contraptions on that engine than there are on an Apollo spacecraft," and no wonder no one can repair them. You have to be Einstein to figure them out. I have a great respect for any repairman that could even get the hood open to repair the car.

Well, those are some of my prejudices which I always like to toss into these meetings. You don't really have to be impressed by them. Somebody said, "Should we break a half hour for lunch?" I suppose we will, but we can always eat. We'll have a couple more questions here.

Mr. Carpenter, let's go back to you. You said something about how we are sitting on a time bomb; that is, that the fuel shortage may sort of be accumulating and may culminate to produce economic chaos, particularly in the agribusiness area. Do you foresee a situation in which we simply may not be able fully to harvest and market this summer's crop because of a breakdown in the fuel supply system thereby affecting, of course, transportation as well?

Mr. CARPENTER. Senator, I think that's a very real possibility. As a specific illustration, the distributor that I've referred to, where the farmers were actually out at the present time and who has sold about two-fifths of his June allocation, tells me he cannot draw on his July allocation. He expects to be out of fuel if things are not changed about the middle of June or early in July when the harvest could catch up to us. If this is true and if the farmers' reserves in their individual tanks are reduced as we expect them to be, we see the possibility of a very real shortage, unavailability in July and August.

Chairman HUMPHREY. So you see the problem peaking about the period of time, July and August?

Mr. CARPENTER. Well, I'm not sure if it will peak then or if it will peak when the cold weather causes competition for diesel fuel as heating fuel. In many instances there is competition out in the rural area; the fuel can be used either way and I think the harvest of corn and soy beans and the fall plowing and the beginning of the heating would probably be the peak.

Chairman HUMPHREY. Yes, most people back East don't understand about drying, you know. One of our real problems on agriculture is getting anybody to know what it's all about. We got people now so they can spell farmer, and agriculture is advanced education when you get, you know, to understand that. That's a real true story. I mean, I visit with my friends with the media back East and they kind of get that glassy-eyed look when you start talking about drying and the marketing problems of agriculture. The only thing they know is that beef steaks are high, and other than that, from there on out it's zilch.

By the way, that's the product of some of our over-education in universities and colleges where they know little or northing about agricultural economics. It's a singular tragedy. Even the Government itself is without agricultural economists almost in every department. You go to the Federal Trade Commission, the Justice Department; you go into any of the regulatory agencies. If you ever find anybody that has any closer relationship to a farm than his great-grandmother, you are very lucky. I served on a committee on agriculture and I'm a bit of a tempestuous fellow around there, because I'm fed up with people who are highly educated at these great universities and who think everything comes out of General Motors. Even though I like General Motors, just once in awhile somebody ought to know that milk does not come in cartons. It comes out of cows.

Mr. CARPENTER. Senator, we're extremely pleased that you are on that agriculture committee for just the reasons you eluded to. There are any number of ways we could illustrate this, but if we start to dry corn and——

Chairman HUMPHREY. Let's say if you can't dry corn, what happens to the crop output, I mean the crop estimates, for example?

Mr. CARPENTER. Well, if we can't dry it, of course, the corn will immediately start to spoil if the weather is such that it isn't frozen, therefore retarding the rapid decomposition. But even if we start to dry it and the drying is interrupted, that corn will immediately start to spoil, and it can spoil to a degree where it's almost useless as a food in a matter of a couple days and in many instances this is irreparable. When that corn is damaged, there is no way you can restore it. You can't start that dryer up 2 days later and bring the quality of that corn back, and the same thing with dairy products and the rest of it. You can't interrupt even for a matter of a day or two.

Chairman HUMPHREY. See, this relates again to what the housewife is going to pay in that supermarket. This is why your transportation problem is critical, Mr. Shoemaker, in serving the rural areas, in serving the farmer out there who needs the fuel for his tractor and for his harvest, who needs it for drying—and you have the big drying plants around our part of the country. If any of this breaks down under the present conditions with no reserves, it is a calamity. We have no food reserves anymore; I mean, you just take a look, the cupboard is bare.

Once 5 years ago when I was in Government, why all we talked about were surpluses. Every time you'd come home somebody would grab you by the lapel and say, "What are you going to do about those surpluses?" Now they say, "What are you going to do about the price of beef?" I tell them, "When you can get a steer ready for slaughter in 30 days, we'll do something about it." But it takes 21 days just to hatch an egg no matter how hot the hen. It takes a certain period of time to get a steer ready for market, and you just can't milk calves. There's just certain things you've got to do. You've got to wait, and any interruption in the production process is catastrophic in our time because there are no reserves of feed grains. There are no reserves of dairy products. As a matter of fact, I want to say to this audience, they're selling off their dairy cattle by the thousands because the price of feed for dairy cattle is high. The price of milk is not that good and the price of beef encourages selling off the cattle, so you got real problems and if you louse it up by a shortage of fuel, well, I tell you I'm going to turn all the complaints over to Congressman Fraser. It's his fault from there on out.

Mr. Olsen, do you have any calculations on the effect of higher fuel costs on MTC finances or bus fares?

Mr. OLSEN. Mr. Chairman, Congressmen, I think I mentioned earlier in my statement that just off the top of my head it looked like for the coming year, had we not found fuel, it would have ranged somewhere in the neighborhood of one-third of a million dollars. Now, the State has provided for a fare stabilization plan so that the fares would have remained stable, but still that money comes out of the tax fund of the State of Minnesota, so it's passed on to the taxpayers of Minnesota.

Chairman HUMPHREY. So it's in the form of a subsidy that's paid out by the taxpayers, out of the revenues from the taxpayers?

Mr. OLSEN. That's correct.

Chairman HUMPHREY. So as these costs go up, the subsidy must go up?

Mr. OLSEN. That's correct.

Chairman HUMPHREY. In other words, you'd have to raise your rates, is that correct?

Mr. OLSEN. Well, eventually, of course, if this went on. In order to keep the fare at its present level, obviously the tax yield would have to increase.

Chairman HUMPHREY. That's what I mean, the amount of the share that's paid publicly would have to increase?

Mr. OLSEN. That's right.

Chairman HUMPHREY. Just another question on that. You noted that curtailment of bus service would force people to turn more to automobiles, taxis, et cetera. How does MTC's fuel consumption per passenger mile compare with that by private automobile?

Mr. OLSEN. Well, our buses range about 4 miles, 4 miles to the gallon diesel fuel, but bear in mind that the overwhelming preponderance of those buses have substantially more passengers than is carried by the automobile. For example, in the morning rush it is not uncommon to have buses on the more heavily traveled routes that would have 80, 90, or 100 passengers, so we may make half as much in terms of miles per gallon of fuel versus the automobile, but during the peak hours of the morning our vehicles may average as many as 60 or 70 times as many passengers.

Chairman HUMPHREY. So as we've said, the proper use of the public transportation system, the mass transit system or the mass transportation system is a fuel conservation measure, is it not?

Mr. OLSEN. I don't think there's any question of that.

Chairman HUMPHREY. Therefore, any limitation of your service merely pushes the problem back onto the individual automobile owner who's going to have to scramble for a short supply of gasoline?

Mr. OLSEN. Yes; that's correct. It's going a step further. We're offering an experimental express service between the downtown area of Minneapolis and as far south as Apple Valley, and on-board surveys at the peaks on those buses have shown that about 60 percent of those passengers are choice customers. That is to simply say that they have an automobile available to make the trip but they have chosen to use the bus in the morning, and curtailment of that kind of service in terms of the congestion on the highway today, particularly on I-35W, could create just massive problems of congestion.

Chairman HUMPHREY. Mr. Shoemaker, your rolling stock capacity, as you've indicated, is already very heavily used due to larger commercial and farm output. If you have to slow down the trains—that's one of the things that people have talked about to conserve fuel—you reduce your hauling capacity, because it takes longer to make the trip, and in the instance of agriculture you would just back up the grain shipments even more, isn't that a fact?

Mr. SHOEMAKER. Very much so.

Chairman HUMPHREY. In other words, there would be a slowdown in the movement of grain from the country elevator to the terminal, from the terminal to the port?

Mr. SHOEMAKER. Yes; as you are well aware, we're facing a national car shortage of tremendous dimension. This area has a very serious car shortage affecting all agricultural interests, and the basic result could be not to serve areas either as frequently as desirable, which will slow down the turn around of equipment.

Chairman HUMPHREY. And switching operations, if you had to cut those out that could be very serious?

Mr. SHOEMAKER. Very much so.

Representative FRASER. I don't understand how you can reduce switching operations. Aren't they an integral part of train movements? Can you still run trains and not do switching?

Mr. SHOEMAKER. Yes; we would reduce the frequency. With this tremendous amount of agricultural movement, given destination elevators are not just served once a day. They may be served two, three, four or five times a day to handle the sort of volumes that are now characteristic of this tremendous grain movement, and accordingly, particularily in the terminal areas, we don't have enough fuel to go around. We would have to curtail the amount of service to individual customers.

Representative FRASER. You'd space out the number of stops?

Mr. SHOEMAKER. Sure, and maybe the frequency in how many days a week.

Chairman HUMPHREY. You'd still run the same number of trains, but you wouldn't necessarily stop at each place as often?

Mr. SHOEMAKER. We sure would on the main line, because we're loaded up anyway, but we might have to reduce an area of the railroad that was receiving service five times a week to three times or from three times to two times. This is the basic impact.

Representative FRASER. If I understand it this diesel No. 2 that you use is essentially the same as heating fuel, isn't it?

Mr. SHOEMAKER. Essentially the same as heating fuel. It has a little tighter sulfur specification and some additive specifications to prevent damage to diesel locomotives, which are sensitive pieces of equipment, but basically it is the same type oil.

Representative FRASER. Your supply now in some sense is in competition against the production of gasoline from the refineries?

Mr. SHOEMAKER. To the extent that it all comes out of crude, you bet, and in that respect it is the same sort of end product that is used for farm tractors, the same sort of product that is used for grain drying, and used by the trucking industry.

Representative FRASER. The fact that you are having trouble suggests that there are no reserves being built up for next winter, I suppose? I assume that's what's being demonstrated?

Mr. SHOEMAKER. Either that or a great concern by the oil people about the availability of supplies for next winter, because neither supply nor price is firm any more.

Chairman HUMPHREY. Well, Mr. Denn, do you know what I'm going to do with you? It's a quarter to 1 o'clock. How about you buying me lunch or something like that?

Mr. DENN. I'll agree to that.

Chairman HUMPHREY. We'll just knock off for lunch.

Oh, I wanted to ask this one general question here. It's been indicated earlier that the major oil companies are under mandatory price controls limiting them to an average of I think it's 1½ percent price increase overall for their products in 1973. Now, some of you, in fact several of you here have mentioned some rather large price increases on some products which you buy. Have you observed any price declines to offset these price increases on other products? Have you seen any price declines?

Mr. THORFINNSON. I think what we reported to you would reflect price increases across the board on items that we received bids on. Whether it's diesel fuel or regular or premium gasoline or the lube oils or all of the products that they supply us, I don't know.

Chairman HUMPHREY. And you have a wide use, isn't that right, Mr. Thorfinnson?

Mr. THORFINNSON. That's right.

Chairman HUMPHREY. Any of you observe any price declines on any of the products that you use?

Mr. CARPENTER. We're not aware of any price decline that I can speak to in any of the petroleum products commonly used by farmers.

Chairman HUMPHREY. This therefore poses a question that we must place before the Cost of Living Council, because the overall limit for each of the 23 majors, giving them some flexibility in the different products, as you understand, was 1½ percent price increases, and it's perfectly obvious from what we're getting in testimony all across the country that there have been no declines in price on products that are produced or that are furnished by the major oil companies. Residual fuel, is that the one? We'll have to look into that. But it may well be that the 1½ percent limit is inoperative, I mean, that it can't work; that's a possibility.

Mr. SHOEMAKER. Some of the major oil companies that have contracts with the Soo Line for next year have indicated that, due to the wage price guidelines, the contract starting price, which is the way contracts are now written, may decline just to meet the Federal profit ceilings.

Chairman HUMPHREY. We're going to watch that very carefully. You've helped us with this kind of information. Again, I don't want to draw positive conclusions until we get much more evidence, but there's something here that makes you wonder whether this price control system is really operative or really working, or whether there's an open violation or a lack of proper enforcement.

Anybody else here on this panel have anything he'd like to offer? Now, the gentleman in the back had a question. We generally don't take questions, but we'd like to hear what you wish to say.

UNIDENTIFIED VOICE. While you were a Vice President, Mr. Johnson stopped a pipeline coming from Fairbanks. I was in Fairbanks, Alaska, a few years ago and there were millions of dollars wasted. I wish they could have brought that down to Anchorage and put in tanks or ships to Seattle. Now, a gentleman here spoke about drying.

Chairman HUMPHREY. By the way, we didn't get your name. May we just get your name? We want your name for our record.

UNIDENTIFIED VOICE. Why should I have a name? I don't have one.

Chairman HUMPHREY. Yes, we need it for the record.

UNIDENTIFIED VOICE. My name is Borrows.

Chairman HUMPHREY. Mr. Borrows, where are you from?

Mr. BORROWS. Well, from here.

Chairman HUMPHREY. Minneapolis?

Mr. BORROWS. Yes. And I'm happy to be a Democrat, but you're driving me to become a Republican. Now, while I was there I started to inquire. Johnson stopped the pipeline for ecology reasons. That was a bunch of bunk. When you put a pipeline, you need a path only 25 feet wide. These arguments should have been thrown over long ago.

Now, coming back now to the gentleman that said he had a grain dryer; he was talking about oil, but he doesn't need oil, all he needs is electricity. That will do just as good.

Now, Great Britain is only one-third larger than the State of Minnesota and yet we don't have one atomic energy plant. Why? Our engineers are as good as theirs. It is the question of politics going on. I could give you a lot more. I've got about 20 questions here.

Chairman HUMPHREY. Well, thank you very much, Mr. Borrows. We welcome open hearings. I believe in openness in government and I think that people in government ought to be worked over occasionally. I want you to know that I've had my fair share. We will return at 2 o'clock, and, by the way, we have some very good witnesses this afternoon. I want to thank all of you for your patience. Believe me, you've been helpful. This will all be abstracted and made available to the Senate and the House. Let me see if we have the afternoon witnesses here before we break up. Is Mr. Emison of Oskey Gas & Oil here?

Mr. EMISON. Yes.

Chairman HUMPHREY. Mr. Sampson of Midland Cooperatives?

Mr. SAMPSON. Here.

Chairman HUMPHREY. Mr. Everett of the Northwest Petroleum Association?

Mr. EVERETT. Here.

Chairman HUMPHREY. And Mr. Haglund of the Northwest Petroleum Association?

Mr. HAGLAND. Yes.

Chairman HUMPHREY. And, Mr. Reed, I hope you won't mind if we bring you in last as a Government witness, just to kind of tie this thing together, and maybe you can answer some questions. I want to say for the Office of Oil and Gas in the presence of Mr. Reed here, that we had good cooperation from them in our efforts as individual

Congressmen and Senators, and we are not here to give them a rough time, just to educate them and myself. Thank you very much.

[Thereupon, a recess was taken for the lunch hour.]

AFTERNOON SESSION

Chairman HUMPHREY. We'll reconvene. Congressman Fraser will most likely return, but he's away at the moment, so we will open up with Mr. Denn, who's the general manager of the Minnesota Motor Transport Association. Mr. Denn was to be part of the users' panel this morning, but he was not available at that time. Following Mr. Denn, as I said, we'll have the suppliers' panel. Is Mr. Comstock here?

Mr. COMSTOCK. Yes, sir.

Chairman HUMPHREY. Mr. Comstock, you also will be a part of our next group. Let me just ask for planning purposes, since both Congressman Fraser and I have to catch a plane to get back to Washington in the early evening, what other witnesses do we have? I have John Kjera?

Mr. KJERA. Kjera.

Chairman HUMPHREY. That's a pretty good name, John, of the oil, chemical, and atomic workers, is that right?

Mr. KJERA. That's right.

Chairman HUMPHREY. And do we have any others now? Well, yes, Mr. Reed, of course, is here.

UNIDENTIFIED VOICE. I would like to say a few words, if I could. I'm an independent owner.

Chairman HUMPHREY. What's your name?

UNIDENTIFIED VOICE. Lee Nakken.

Mr. ERICKSON. I represent the Minnesota Aviation Trade Association, an organization of airport operators in Minnesota.

Chairman HUMPHREY. You are Mr.?

Mr. ERICKSON. Erickson.

Chairman HUMPHREY. Oh, yes. All right. We'll try to get you all in. and we'll move right along.

Mr. HELLMAN. I'm Mr. Hellman.

Chairman HUMPHREY. Yes.

Mr. RICHARDS. I'm Myron Richards, president of Richards Oil Co., Savage, Minn.

Chairman HUMPHREY. Mr. Richards. Now, we're going to move along. As you can see, we have quite a few, and we want to be able to accomplish this in the next couple hours, so let's move right on. Mr. Denn, please proceed.

STATEMENT OF JAMES N. DENN, GENERAL MANAGER, MINNESOTA MOTOR TRANSIT ASSOCIATION, ST. PAUL, MINN.

Mr. DENN. My name is James Denn. I am general manager of the Minnesota Motor Transport Association, which is a trade association representing 125 motor carriers including common carriers, bulk, specialized, over-the-road, long-haul, intrastate and interstate carriers, those for hire as well as private carriers. I am most appreciative of the opportunity to appear before this hearing and participate in the discussions of the fuel shortage as it affects truck transportation in Minnesota and in general.

Our experience over the past several months can leave no doubt that there is a very serious shortage of petroleum fuel products in the United States and specifically in Minnesota. This is cause for particular concern in our State, where over 470 Minnesota communities depend solely on truck transportation for the movement of goods and services, with the balance of the communities in Minnesota also largely dependent upon the flexibility and services offered by truck transportation. According to the Minnesota Department of Economic Development, Minnesota constitutes the third largest trucking center in the United States. Trucking is the second largest employer in Minnesota, providing over 189,000 jobs, including 60,000 teamsters employed in trucking operations. Our exposure to the fuel shortage began in earnest about mid-December of 1972.

At that point in time, the abnormally cold fall and early winter created a severe shortage in No. 1 and No. 2 diesel fuels. This shortage was reflected to the motor carrier in nonrenewal of contracts and in the reduction of supplies made available to them by oil distributors.

Historically, truck operators have received their primary fuel supplies through contractual arrangements with either major petroleum companies or independent fuel distributors who, in turn, depend on the major petroleum companies as a source of supply. Many of these contracts have expired since last December and have not been renewed. In many other instances, suppliers, both major and independent, have notified our members of their inability to continue to supply fuel at all or that they must allocate fuel, cutting availability to as little as 50 percent of last year's purchases. This situation has forced trucking firms to seek fuel from sources other than their traditional suppliers, at appreciably higher prices.

It should be noted here that, although the motor carrier industry is critically dependent upon adequate fuel supplies, it is not an aggressively large consumer of these fuels. For example, our best estimates indicate that 30 to 35 million gallons of diesel fuel will meet the needs of the 30 major carriers operating in Minnesota. The competition for the type of fuel used by trucks has increased significantly over the past several years. Conservative estimates indicate that from 150 to 200 million gallons of such fuels were consumed in our State during the past year by a relative handful of heavy volume users, such as utility companies like Northern States Power, and institutional complexes such as the University of Minnesota and the State of Minnesota.

The impact of the shortage has been somewhat reversed by one major oil company's recent decision to supply 80 percent of last year's purchases to customers of record. This has been particularly noticeable in Minnesota because so many motor carriers are dependent on this supplier, Standard Oil. However, even this amount falls far short of that needed, in light of the increased demands that have been placed on the trucking industry. Motor carriers anticipate increased service demands in the future of up to 20 percent above current levels.

The increased demand for services coupled with the cutbacks in fuel has indeed reflected heavily on the ability of the trucking industry to serve the public in the most economical way possible. Although the abnormally warm late winter and early spring also worked to ease the crisis foreshadowed by the earlier shortages, the situation is still very pressing. This is manifested in various ways such as in cutbacks of fuel supplies, nonrenewal of contracts, special shortnotice contract provisions for either unilateral price increases or contract termination by the supplier, and price increases of almost 50 percent for diesel fuel and gasoline. It is apparent that the major difference between the present fuel shortage and that of last December is that, in the current situation, both diesel and gasoline are affected, whereas last December the shortages were confined to the diesel fuels.

As anyone who has followed the problem realizes, there are dynamic aspects to the fuel shortage. In an effort to maintain a current understanding of the situation, Minnesota Motor Transport Association has made it a practice to conduct a continuing survey of its member firms. Most recent reports are based on a population of 27 major carriers.

The severity of the problem has risen to a point where price is a secondary consideration and where the major concern is one of finding a supplier with fuel available. Notwithstanding this turn of events, the pricing situation is indeed serious. Based on reports we have received, the price increase is approximately in the range of about 4 cents a gallon for diesel and over 5 cents a gallon for gasoline. This, of course, is in a case where a major oil supplier is the source. Fuel purchased from independent suppliers has been recorded at prices up to 10 cents a gallon over that previously paid the majors and, of course, fuel from truck stops is typically purchased at even higher prices.

In attempting to meet service demands, Minnesota Motor Carriers have not only sought new fuel supplies but also have implemented a number of fuel conservation practices. These include, but are not limited to, more frequent maintenance checks, maximum utilization of load capacities, operation at optimum speeds, strenuous route management, driver training programs, and other similar techniques.

In searching for solutions, we have been confronted at times with some rather disturbing occurrences. On one occasion, we were advised by Secretary of Transportation Brinegar that we should pursue "price allocation" in order to avoid fuel shortages. We are disturbed and confused also by the ICC's decision to disallow short-route emergency runs which would cut miles off intercity transportation and effectively conserve on fuel. We are confused moreover by recent proposals to increase the Federal tax on fuels which in our opinion would not serve to diminish the demand for fuel but would only serve to aggravate further an already unstable and adverse cost situation. Such proposals and actions appear inconsistent with all the indications we have that the fuel shortage is very real and present.

The overall impact of the energy crisis on the trucking industry is somewhat difficult to assess. In terms of specific hardship to the public, it must be pointed out that, to the best of our knowledge, services provided by the trucking industry have been maintained without curtailment, albeit at higher costs. The uncertainties and pressures of the current situation are sufficient, however, to cloud the future prospects for individual motor carriers. Continuation of the shortage will bring ever new pressures to bear on the trucking industry. Unless an adequate fuel supply can be assured, it can also be forecast that the cost of trucking services will rise and that many of the services now provided by the industry will, of necessity, be curtailed.

This prospect looms ever present because of the uncertainty surrounding the fuel supply available to truckers. This uncertainty itself can lead to the curtailment of services in anticipation of future shortages. It is also true that a worsening of the fuel supply situation could cause a large-scale cutback in truck service inasmuch as most trucking firms have relatively small fuel reserve capacities in the form of underground storage tanks and the like, and shortages are almost immediately reflected in operations.

The basic shortage of fuel in Minnesota and the Midwest, regardless of cause, should be rectified immediately. This can be accomplished only through conservation efforts by consumers and stronger governmental controls or mandatory priorities. In our opinion, this should include a reexamination of environmental controls under the Clean Air Act of 1970 and of State environmental controls and regulations with the aim, as stated by Treasury Secretary Shultz, "to achieve a compatibility between energy needs and environmental standards."

We are, indeed, vitally concerned about the impact of fuel shortage in Minnesota and, in particular, as it affects our vital motor carrier industry. Accordingly, we urge support of all constructive suggestions which may contribute to the eventual solution of this serious problem.

Chairman HUMPHREY. Let me ask you, Mr. Denn, has your organization been concerned at all about the so-called "gateway" requirement under ICC regulations?

Mr. DENN. Well, to the extent that gateways will require a longer route?

Chairman HUMPHREY. Yes.

Mr. DENN. Yes, we have been, and we have, as I indicated, made application. Many of the carrier firms had made application to use emergency shortrun routes and these have, to the best of my knowledge, all been disallowed in the past couple of weeks.

Chairman HUMPHREY. I think we have information on about 50 carriers that have been turned down in their request to the ICC for the suspension of gateway requirements. I wrote a letter to President Nixon on the 25th day of May in which I said:

> Dear Mr. President: As a result of our subcommittee hearings on the present shortage of petroleum products, it has come to my attention that the route regulations of the Interstate Commerce Commission require some common carrier truckers to pass through so-called gateways at a cost of much unnecessary extra mileage.

I'm told, for example, that a firm authorized to run trucks between New York City and the west coast may well have to use routes 400 to 600 miles longer than the most direct route.

Continuing my letter "These regulations compel the waste of motor fuel at a time when a fuel shortage has threatened serious economic damage and other hardships to people in many parts of the country. It is estimated that the gateway requirements consume at least 5 percent of the fuel used by the trucking firms involved and probably waste at least a million and a half gallons per month," et cetera. I haven't heard anything from the President as yet. It's a rather long letter. I'm going to include in the testimony at this point a copy of my news release with the attached letter of May 25 in reference to the gateway requirements and the impact of the so-called gateway doctrine on the use of diesel fuels.

[The news release with the attached letter, referred to above, follows:]

NEWS RELEASE OF SENATOR HUBERT H. HUMPHREY

HUMPHREY URGES SAVINGS IN DIESEL FUEL

WASHINGTON, D.C., May 25, 1973—Senator Hubert H. Humphrey today urged the President to seek Interstate Commerce Commission suspension of "gateway" requirements for truckers in order to save scarce diesel fuel.

Such action, Senator Humphrey said, would save at least 1½ million gallons of fuel a month, which is now wasted. Long-standing ICC requirements cause many trucking firms to use other than the most direct routes to their destinations.

The text of Senator Humphrey's letter to President Nixon follows:

"Dear Mr. President:

"As a result of my subcommittee hearings on the present shortage of petroleum products, it has come to my attention that route regulations of the Interstate Commerce Commission require some common-carrier truckers to pass through so-called gateways at a cost of much unnecessary extra mileage.

"I am told, for example, that a firm authorized to run trucks between New York City and the West Coast may well have to use routes 400 to 600 miles longer than the most direct route.

"These regulations compel the waste of motor fuel when fuel shortages threaten serious economic damage and other hardships to people in many parts of the country. It is estimated that gateway requirements consume at least five percent of the fuel used by the trucking firms involved and probably waste at least 1½ million gallons per month.

"I understand that, after granting temporary exemptions from gateway requirements earlier this year, the ICC now refuses to extend the exemptions on the grounds, among others, that the fuel shortage is insufficient cause.

"Many believe this to be an ill-informed and short-sighted view. Filling stations in various areas now limit fuel purchases for trucks and cars. Major suppliers of fuel to trucking firms are refusing to renew contracts altogether or will only renew them subject to termination on 30 days notice. Moreover, diesel fuel used by trucks is similar to No. 2 heating oil, which is expected to be in very short supply next winter. Of course, shortages in any one of our energy sources are interrelated with the other sources, and so it is important to conserve on every front.

"I understand, moreover, that the Oil Policy Committee may recommend cutting highway speed limits to save fuel. Speed reductions applied to trucks during the present period of high economic activity probably will cause new shortages of hauling capacity. This would make even more severe the potentially serious shortage of hauling capacity for agricultural products and fertilizer which we face in our rural areas. The suspension of ICC gateway requirements might help to counteract this problem.

"May I urge, therefore, that Administration encourage the ICC to extend so-called 'emergency temporary authority' to suspend gateway requirements without delay and that immediate consideration be given to full suspension for the duration of the fuel shortage.

"While this is only one aspect of the comprehensive action needed to alleviate our energy problems, I believe it deserves immediate attention.

"Sincerely,

HUBERT H. HUMPHREY, *U.S. Senator*."

Chairman HUMPHREY. I realize there's some argument about this whole subject. It isn't as if it's a clear-cut case. There's a reason for gateway requirements under normal conditions, but we're not quite facing normal conditions.

Congressman Fraser.

Representative FRASER. In your statement you say that, "On one occasion we were advised by Secretary of Transportation Brinegar that we should pursue 'price allocation' in order to avoid fuel shortages." Maybe you covered this, but I don't understand this statement.

Mr. DENN. Well, Congressman Fraser, it was a meeting that was held perhaps a month and a half ago in Minnesota. We met with the Secretary and explained to him our problem. His recommended course of action for us to follow was to bid higher prices for those fuels on the pipeline. He indicated that since Minnesota lies at the end of the distribution network, if people along the way bid the same price as we do, then there would be an incentive not to transport the fuel this far. The reason that I say we were confused by that is that, if this were the case, it would indicate that there wasn't a real shortage. We really do feel that there is and we don't think that this bidding higher prices is going to solve the shortage overall.

Chairman HUMPHREY. What it really boils down to is that he recommends a system of allocation on the basis, if you pay more than the fellow down the street, or down the pipeline, so to speak, you'll maybe get the fuel?

Mr. DENN. That's what he said; yes, sir.

Representative FRASER. Where does that end if there's a shortage?

Mr. DENN. If there is a shortage it doesn't solve anything, because if we answer Minnesota's problem it may occur someplace else in the Nation.

Chairman HUMPHREY. It's an incredible doctrine I might add. It's really incredible that the Secretary, a departmental head, recommended that all you do is outbid the other fellow on the line regardless of any price controls and allocation guidelines and then you'll get your gas. It's a form of officially authorized blackmarketing, that's about right, isn't it? Isn't that about what it amounts to?

Mr. DENN. It's a term used in the industry; yes, sir. It seems that if this were the way to go about it, it would look like a scheme to raise prices, but in all my contacts and investigations it's more the case of, as I can see it, just poor advice, because I really do believe there's a shortage and price allocation is not going to be an effective measure.

Representative FRASER. I notice that you make the comparison between the present situation and last winter when the fuels that you used were the ones that were in short supply but we didn't have so much difficulty with gasoline. Now we got problems on both sides. Have you some ideas as to what the future holds? What about next winter? Do you foresee any slackening or worsening of the problem?

Mr. DENN. Well, we know, Congressman, that our best situation is one where the carrier is getting 80 percent of last year's purchases from a supplier and that he is now forced to go to independent sources or even ship in from out of State to make up the 20 percent he is missing just to meet the past year's demand. This year's demand is already over that and, as I indicated, we're projecting a 20-percent increase. And last winter was an extremely mild one. As long as there is such a great dependence upon the fuels that we use for driving trucks; namely No. 1 or No. 2 diesel fuels or their equivalents, as long as there is such dependence on them also for heating homes—and we know that's very important—and possibly also for emergency centers, fire, police and the schools and so on, we know that there's going to be a terrific drain. And the priorities are going to dictate that the trucking industry will suffer unless steps can be taken to insure that there's adequate supply. We predict that with a normal Minnesota winter we will very likely have to curtail service and this will be reflected in shutdown of equipment and layoff of people, very simply.

Representative FRASER. Thank you.

Chairman HUMPHREY. You'll be interested to know that yesterday, in the Senate, in my discussion with Senator Jackson of our bill S. 1570, I brought up the subject of priorities under the allocations for certain segments of the economy. This is section 102 of the bill, I think.

I outlined the priorities, including motor transport and bus systems, private and public bus systems, but particularly the trucking operations of the country. Under our bill you will be given what we consider a very high priority; trucks, buses, railroads, and mass transit will have priority call on fuel.

Mr. DENN. I noticed that.

Chairman HUMPHREY. We discussed this so that there's a good legislative history on it; it is recognized not only in the law but by what we call legislative history in the perfecting of legislation.

All right. Mr. Denn, we thank you. I've had the privilege of meeting with Mr. Denn before and working with the Minnesota Motor Transport Association. I want to assure you of our cooperation and, if you have pressing emergency problems, we're available; the telephone number is 225–3244, area code 202.

Mr. DENN. I've got it.

Chairman HUMPHREY. I knew you had it. Thank you.

Mr. DENN. Thank you very much. I appreciate the opportunity.

Chairman HUMPHREY. Now, we have the panel. I believe we have sufficient chairs here. Mr. Emison, Mr. Sampson, Mr. Everett, Mr. Haglund, Mr. Comstock, just pull up here. This is a panel representing petroleum suppliers in our part of the country. We will list for the record the following parties at this hearing: Mr. James W. Emison, the Oskey Gasoline & Oil Co., Inc.; Mr. Sigved Sampson, president of Midland Cooperatives; Mr. Jerry Everett, executive secretary, Northwest Petroleum Association; Gordon Haglund, chairman of Fuel Oil Committee, Northwest Petroleum Association; and Mr. Wayne Comstock, treasurer of Minnesota Association of Petroleum Retailers. These are the five gentlemen that we have here, and might I suggest now for our purposes here that you make available your prepared statements for publication in the record and just summarize them, because of the time element here. Just hit the high points, just the high points. Believe it or not, we do study this record very carefully and we have staff people that abstract it for us, so that we get what we want out of the record. So you just bang away with what you consider information that's especially valuable to us. We don't need background information. We need the information that's right on target. We will open up with Mr. Emison, Oskey Gasoline & Oil Co. Mr. Emison, please proceed.

STATEMENT OF JAMES W. EMISON, PRINCIPAL EQUITY OWNER, OSKEY GASOLINE & OIL CO., MINNEAPOLIS, MINN.

Mr. EMISON. Thank you. Mr. Chairman, Congressmen, my name is James W. Emison. I am a principal equity owner in Oskey Gasoline & Oil Co., a 12-State independent marketing company headquartered in Minneapolis, Minn. Other than for attendance at college and service in the Marine Corps I've been in the oil business since I was 15 years old. I am a member of the American Petroleum Institute and the National Petroleum Council as well as a number of other industry groups. As I understand it, one of the questions you are submitting to members of the oil industry and other interested parties is plainly, "Should the recently announced voluntary fuels allocation program be made mandatory as opposed to voluntary and if so, to what extent and how?"

Before addressing myself directly to these questions, let me make a statement of a general nature. It is with a considerable degree of shame and chagrin that I have to recognize that both my industry and my country even have to consider fuel allocation, whether it be voluntary or mandatory. My customers are made up of independent businessmen who have survived and profited by their wits, instinct, and hard work.

It is an anathema to us that the Federal Government or any government interfere or intercede in our affairs. However, because of past sins of omission and commission worked upon our industry by both Federal Government and various local government subdivisions, environmentalists and others, our industry has literally been brought to its knees. My industry is no longer able to perform 100 percent of its normal function in the domestic or world energy economy. As a result, during this period of energy scarcity the companies that will suffer most or for that matter will be entirely destroyed will be those companies which are the smaller economic entities, or those which are not fully integrated with respect to strong raw material and manufacturing base.

If as apparently has been determined by the Federal Government, it shall be a matter of national policy to save the independent segment of the oil industry, then it is without question that controls for the purpose of fuel allocation will be required and that such allocations will have to be made mandatory upon the entire industry. There is no doubt but what the administration of such allocations will be difficult but the problems we face are enormous ones affecting literally tens upon tens of millions of people. Any problem of this magnitude cannot be dealt with in simple terms. The question is not whether it can be dealt with; it must be dealt with!

As I think about all the ramifications of a mandatory allocation system, my thoughts go back some 2, 3, or 4 years when—if we had built the Alaskan pipeline, and if the Federal Government had allowed a 1-cent-per-gallon increase in crude oil prices, and if the FPC had allowed the price of natural gas to rise by 30 or 40 cents per thousand cubic feet, we would not be seated here today with a virtual tragedy on our hands.

Mr. Chairman, there are several points that I feel are required to implement what I would consider to be a fair and effective mandatory fuels allocation program. (1) Within the scope of such a program the oil companies should be allowed substantial latitude to deal fairly with the spirit of the program. The Office of Oil and Gas should be encouraged to set flexible rules to administer the program. (2) The present energy situation is not manageable in a framework that will save independents without the imposition of mandatory controls. (3) Adequate provision should be made within any mandatory program for the purpose of supplying the needs of nonpriority customers who did not have a base period supplier with a supply obligation to such a customer. (4) There must be adequate legal safeguards given to the industry to protect it against needless antitrust or contract litigation.

Chairman HUMPHREY. By the way, my amendment will do just that, the one that we referred to earlier this morning. On the one hand, it would prevent noncompetitive actions by the industry, and on the other hand it would make sure that any rules and regulations that the Government establishes by which the industry is required to supply are not interpreted by antitrust lawyers to be in violation of the antitrust laws. Go ahead.

Mr. EMISON. (5) Such a mandatory program should not be placed in effect in a time period of much less than 4 or 5 weeks simply because of the logistical movement of material that will be required. (6) It is further my view that, unless the present administration uses the proper vehicle to impose mandatory allocation, the Congress will do so but may do so in such a way as to further hamstring and confuse the industry and create a situation that is not acceptable to the consuming public, national policy, or the oil industry. And last, many of the supply disparities in the oil industry are currently related to price—the price of foreign products, the price of domestic products, and the location of those products.

Phases 3 and 3A have created a number of price anomalies that frequently prevent the movement of products in proper directions, simply as a result of price considerations.

The Economic Stabilization Act has provided that the Cost of Living Council may grant price control exemptions for those industries that are otherwise regulated on the subject of price by agencies of the Federal Government such as FPC, ICC, CAB, and others. I suggest that a similar position be adopted for the oil industry by using the Oil Policy Committee as an agency to monitor or overview its pricing.

Finally, Mr. Chairman, I'd like to just make one statement about what is going to happen to the heating oil and diesel fuel situation this winter. That is, right now we are destroying the normal gas-oil proportions of the petroleum barrel in order to manufacture this gasoline in adequate quantities to take care of the requirements as they presently exist. By destroying the gas-oil fraction this summer in order to manufacture gasoline, that gas-oil fraction will not be available to manufacture fuel oil or diesel fuel or jet fuel or products of those fractions. We won't have a proper inventory, and you are flatly not going to have adequate supplies of fuel oil either domestically or internationally to supply this country this winter if gasoline use continues at its present rate. So something is going to have to be done to artificially restrain demand, and it's going to have to be something pretty severe like a national speed limit of 55 miles an hour or arbitrary gasoline rationing. In connection with my work on the National Petroleum Council, I have learned that there is just a worldwide shortage of all kinds of light fuel products. It's not a matter of what price you are willing to pay.

The stuff is just flatly not available, so that you must have flexible mandatory controls. We must artificially restrain demand and we must provide some monitoring authority such as the Oil Policy Committee to monitor the oil industry as it prices its products.

One additional statement I would like to make is that it appears to me today that the major oil companies have come off looking rather bad. They're my natural enemies; I fight them everyday in the marketplace; but believe me this shortage was not contrived. The oil companies are working very hard to solve the problem. The leadtime required, as you observed, Senator, are enormous, and it's going to take a monumental effort on the part of the citizenry of this country, the Congress, and the people in our industry to solve this problem. That's all I have to say.

Thank you.

[The prepared statement of Mr. Emison follows:]

PREPARED STATEMENT OF JAMES W. EMISON

Mr. Chairman and Congressman, my name is James W. Emison. I am a principal equity owner in Oskey Gasoline and Oil Company, Inc., a twelve-state independent marketing company headquartered in Minneapolis, Minn. Other than for attendance at college and service in the Marine Corps, I have been in the oil business since I was fifteen years old.

I am a member of the American Petroleum Institute, the National Petroleum Council, as well as a number of other oil industry groups. As I understand it, one of the questions you are submitting to members of the oil industry and other interested parties is plainly—should the recently announced Voluntary Fuels Allocation Program be made mandatory as opposed to voluntary and, if so, to what extent and how? Before addressing myself directly to these questions let me make a statement of a general nature. It is with considerable degree of shame and chagrin that I have to recognize that both my industry and my country have had to even consider fuel allocation whether it be voluntary or mandatory. My customers are made up of independent business men who have survived and profited by their wits, instinct, and hard work. It is anathema to us that the Federal Government, or any government, interfere or intercede in our affairs. However, because of past sins and omission and commission worked upon our industry by the Federal Government and various local government subdivisions, environmentalists, and others, our industry has literally been brought to its knees. My industry is no longer able to perform 100% of its normal function in the domestic or world energy economy. As a result, during this period of energy scarcity the companies that will suffer most, or for that matter will be entirely destroyed, will be those companies which are the smaller economic entities or those which are not fully integrated with respect to a strong raw material and manufacturing base.

If, as apparently has been determined by the Federal Government, it shall be a matter of national policy to save the independent segment of the oil industry, then it is without question that controls for the purpose of fuels allocation will be required and that such allocations will have to be made mandatory upon the entire industry. There is no doubt but what the administration of such a program will be difficult, but the problem we face is an enormous one affecting literally tens upon tens of millions of people. Any problem of this magnitude cannot be dealt with in simple terms. The question is not whether it can be dealt with, but that it must be dealt with.

As I think about all the ramifications involved in a mandatory allocation system my thoughts go back to two, three or four years ago when—if we had built the Alaskan Pipe Line; and when if the Federal Government had allowed a one-cent per gallon increase in crude oil prices and when if the FPC had allowed the price of natural gas to rise by 30 to 40 cents per 1000 cubic feet—we would not be seated here with a virtual tragedy on our hands!

Mr. Chairman, there are several points that I feel are required to implement what I would consider to be a fair and effective mandatory fuels allocation program.

(1) Within the scope of such a program companies should be allowed substantial latitude to deal fairly with the spirit of the program and that the Office of Oil and Gas should be encouraged to set flexible rules to administer the program.

(2) The present energy situation is not manageable in a framework that will save independents without the imposition of manadtory controls.

(3) Adequate provisions should be made in any mandatory program for attention to the supply needs of non-priority customers who do not have a base period supplier with a supply obligation to such a customer.

(4) There must be adequate legal safeguards given to the oil industry to protect it against needless anti-trust or contract litigation.

(5) Such a mandatory program should not be placed in effect in a time period of much less than four to five weeks simply because of the logistical movement of refined materials that will be required.

(6) It is further my view, that unless the present administration uses a proper vehicle to impose mandatory allocation that the Congress will do so, but may do so in a such a way as to further hamstring and confuse the industry and create a situation that is not acceptale to the consuming public, national policy or the oil industry.

(7) Many of the supply disparities in the oil industry are related to price—the price of foreign products, the price of domestic products and the location of the products.

Phases III or IIIA have created a number of price anomalies that prevent or frequently prevent the movement of product in proper directions—simply as a result of price considerations.

The Economic Stabilization Act has provided Cost of Living Council price control exemptions to those industries that are otherwise regulated on the subject of price by Agencies of the Federal Government such as the F.P.C., I.C.C., C.A.B. and others.

I suggest that a similar position be adopted for the oil industry, with the Oil Policy Committee being given authority to overview and monitor prices within the oil industry. The Cost of Living Council can hardly be expected to monitor an industry that is not only in terrible trouble, but is some five times larger than any other industrial activity in the United States.

Mr. Chairman, let me add a few additional comments related to the testimony of prior witnesses who were speaking of the problems we can expect with respect to the heating oil situation this coming winter. At the rate our industry is presently running and using gasoline and thereby destroying the gas-oil fraction of the barrel—(The gas-oil feedstock fraction can be used to manufacture substantial quantities of heating fuels—diesel fuel—for use now and subsequently preparing inventories for the coming heating season). We must, *absolutely must*, do something to restrain current gasoline demand now—whether by World War II style rationing or by setting a national speed limit something on the order of 50 miles per hour. Without artificial restraint of gasoline demand *now* we will suffer a heating oil catastrophe this winter.

Secondly, Mr. Chairman, it occurs to me that the major oil companies have come off looking rather badly today—I do *NOT* think this is fair! This current shortage was *NOT* managed or contrived, and all of the large oil companies are working just as hard as they know how to overcome the problems that have been created as a result of the inattention the energy problem has received. The big companies are just as concerned about the problem as all of us here today are!

Thirdly, any mandatory system invoked or imposed has to have, as an absolute pre-requisite, a great deal of flexibility or we will simply create more problems than we solve. Thank you.

Chairman HUMPHREY. Mr. Emison, I'm grateful for your testimony. I tend to find in it considerable merit, at least from my point of view. I think what you had to say is right on target: I think the present situation does represent, as you properly indicate, a gross lack of foresight and planning on the part of the Government and, I might even say, on the part of industry. We had a long struggle, as you know, on import quotas in the Government. The theory was at one time that, after all, we ought to have our own—I think we ought to develop our own resources here and have our own domestic oil industry. Today—well, let's put it this way: 17 years ago in the Middle East crisis of 1956, we were able to supply our needs and Western Europe's out of the expanded production of the American oil fields; today American oil fields are on the downhill grade, so to speak, until we get the Alaskan North Slope opened up and the Alaskan pipeline. I happen to think we are going to have to do that, and I have for a long time.

I haven't been dragging my feet as a Senator on the pipeline, even though I realize that the trans-Canadian pipeline is what we need here, and it's a pitiful shame that we haven't negotiated a long time ago with our Canadian brothers and neighbors on the subject of the trans-Canadian line. But rather than to get into an argument as to whether it ought to be trans-Canada or trans-Alaska, I'm of the opinion we are going to need both, and that is just ridiculous to be fighting each other. What's really needed is a hurry-up program in both areas because these resources are desperately needed. Likewise, the development of oil shale. There are lots of things we need. We're just behind, that's all. I guess it's a typical old American way of doing things. We never really get at it until the crunch is on, and now the crunch is on. I think you put your finger on it. I think the crunch is on a lot more even than we're saying here today, and I'm particularly concerned about the fuel oil situation for the coming months.

Well, the next witness is Mr. Sampson, president of Midland Cooperatives.

STATEMENT OF SIGVED SAMPSON, PRESIDENT, MIDLAND COOPERATIVES, INC., MINNEAPOLIS, MINN.

Mr. SAMPSON. Senator Humphrey, Congressman Fraser, we have submitted a prepared statement so that I'll just condense what we have in the prepared statement. We're a regional cooperative supply organization serving about 600 member cooperatives in the States of Minnesota, Wisconsin, the Upper Peninsula of Michigan, northern Iowa, and eastern North Dakota. We have a wholly owned refinery at Cushing, Okla., and a shared refinery at McPherson, Kans.

Up until the last quarter of 1972, we had no trouble getting crude oil for the refinery and to supply our members in this area that I've outlined to you. But in the last quarter of 1972, the oil import quota system we had in existence since 1959 began to break down. and we were no longer able to trade off import tickets and get the necessary crude oil to run the refinery. Beginning on January 1, 1973, we had to cut back our refinery operation to about 50 percent of capacity; and on February 15, we shut down entirely. We were down for a period of about 7 weeks during which time we accumulated some inventories, and we opened up again in the first part of April, running only about half capacity.

Now, the thing that has saved us is that we have been able to buy on both the domestic and the foreign markets, fuel oils and gasoline in sufficient quantity to keep us going. We have been allocating to our members, giving them about 100 percent of last year's withdrawals. This is not sufficient, however. Our membership is primarily agriculturally oriented and, as you heard from Mr. Carpenter this morning, agriculture with the increased acreages, with the lack of fall work done last year, can't get by on 100 percent. As a matter of fact, our estimates are that from 125 to 150 percent are needed this year as compared to last year. Thank you.

[The prepared statement of Mr. Sampson follows:]

PREPARED STATEMENT OF SIGVED SAMPSON

Midland Cooperatives, Incorporated, is a regional cooperative supply organization owned and controlled by 600 locally owned and controlled community cooperatives in the States of Minnesota, Wisconsin, the Upper Peninsula of Michigan, Northern Iowa and Eastern North Dakota. Midland was organized in 1926 for the purpose of supplying petroleum and other products to its members and to refine, manufacture and/or purchase such supplies as dictated by its member cooperatives. Of the 600 members, 100 are located in the State of Minnesota. We estimate that we serve 100,000 farmers in the State of Minnesota.

To assure a constant supply of petroleum products, Midlands acquired a refinery in Cushing, Oklahoma, presently rated at 19,500 barrels per day, and together with other cooperative regionals acquired an additional refinery in McPherson, Kansas. Both of these acquisitions took place in 1943. Some crude oil reserve acquisition, as well as drilling, has taken place over the years but on a very liimted basis because of the ready availability of crude oil and the extremely high capital requirements needed to develop basic crude oil reserves.

We are now experiencing great difficulty in obtaining enough crude oil to operate our refinery at Cushing, which is our main source of supply. The rapid increase in demand for refined products, coupled with a declining rate of domestic crude oil production and inflexibility of the import oil program, has caused a shortage of crude oil supplies and the smaller independent refiners, such as Midland, who have depended on purchasing their crude oil to operate, are now unable to obtain a sufficient supply.

We have been able to operate our refineries at a steady rate of capacity throughout the thirty years of ownership and we have been a constant and reliable source of supply of burner fuels, diesel fuels and gasolines for our member cooperatives. But since October of 1972 our operations have been declining because of our inability to acquire crude oil.

Since 1959 the Federal Government has been controlling the importation of foreign crude oil. In order that this foreign crude would be distributed equitably, an import quota system was devised. Under this system, all refineries throughout the country were entitled to their proportionate share based on a predetermined formula. This system worked well until the last quarter of 1972. Because of increased demand, smaller quantities of domestic crude oil, and higher prices for foreign crude oil, the import quota system broke down. As a result, many interior refineries have been operating under capacity during all of 1973. Since January 1, we have been shut down for a period of seven weeks. During the time we have operated, our crude runs have been at about 50% of capacity. In order to serve our members with their needs, it is imperative that we operate at 100% of capacity.

During 1973, we have had no alternative but to secure finished gasoline, diesel fuel and fuel oil from both foreign and domestic suppliers at substantial premium prices. We could serve our members much more efficiently and economically if we could secure the crude oil, refine it in our own plants and distribute it to our members in our historic manner.

On May 10, 1973, William Simon, Deputy Secretary of the Treasury, announced a voluntary allocation program to be effective as of May 10. The principal provisions of this program called for all historical suppliers to provide product to their historical customers on the same basis as provided during the established base period of October 1, 1971 through September 30, 1972. This program, when announced, gave us encouragement. We have contacted our historical suppliers in writing and through personal contact. While they have not indicated any intention of not complying with the program, neither have they given us any indication of supplying us with these historical quantities. Unless action is immediately forthcoming, our ability to continue to supply our members with their needs will be severely impaired. Had we not been able to obtain finished products from the above-named sources, we would have been out of products by this time. The warm Winter weather and the late Spring has delayed what would otherwise have been a period of severe shortage of power and heating fuels. These conditions cannot be expected to bail us out for any extended period of time in the future.

Unless the industry is willing to cooperate with the Federal Government in its voluntary program, we see no alternative to mandatory allocations. While mandatory allocations will not necessarily increase the amount of product available, it will at least funnel these products through traditional distribution channels. With this possibility, it will cause the least disruption in the industry generally and at the same time provide more efficient and equitable distribution of products in short supply.

Chairman HUMPHREY. I wish you'd wire that into the Secretary. Now, I've been having a running battle with the Department of Agriculture. They keep talking about this 1- and 2-percent shortfall. I think it's ridiculous to talk that way particularily when we're calling on agriculture, as I said earlier today, not to work 45 million more acres. That's an awful lot of land. All of that's got to be plowed. All of it's got to be planted, all of it's got to be harvested, all of the output has to be transported and much of it has to be dried. To say that you only have a difference of 1 and 2 percent over last year, it just doesn't make any sense.

Mr. SAMPSON. Well, I attended the meeting in Des Moines on Thursday and there was quite a crowd there, and I think he got the message. There was for a period of time when the Department of Agriculture was of the impression that we were crying wolf on this. I was 1 of some 12 people who have been in Washington several times, several presidents of the regional cooperatives throughout the country, to bring this to the attention of the Department of Interior and to the Department of Agriculture. I think they are coming to realize now that these are the facts, and we were assured on Thursday that agriculture was going to get high priority. Now, they did not spell out how this was to be implemented, however. I might say right here that Mr. Simon, who has recently been appointed as Under Secretary of the Treasury and has as much to do with energy has probably been one of the most effective men we have worked with.

Chairman HUMPHREY. We agree with that. He's been excellent. I've had marvelous work with him. I'm on that telephone with him practically every day and he's cooperated as much as any man I've ever seen in Government.

Mr. SAMPSON. Now, to our knowledge, none of our farm members have run out of products so far this year, but we've been saved by one thing and that's the weather. We've got a very wet spring in the Midwest. Those 45 million acres—we are in great danger that they will not be planted, and if they are not planted, then we are in further danger that our inventories of feed grains and proteins are going to fall below security levels. It's a very serious situation and so agriculture has high priority or we've seen nothing yet as far as food prices are concerned.

Chairman HUMPHREY. I noted the Ohio Farm Bureau. I read into the Congressional Record yesterday the Ohio Farm Bureau statement to the effect that they were now reaching the critical point.

Mr. SAMPSON. Yes.

Chairman HUMPHREY. Just as you are indicating here, up to now we've been able by moving back and forth, borrowing and drawing on allocations, to get by; but they're now reaching the critical point where these shortages could really prevent the proper planting of the crop.

Mr. SAMPSON. This is right. It was generally agreed at the meeting on Thursday that we may get the crop in, but we are extremely apprehensive that we won't get the crop harvested. Just this week I had a telegram from the Governor of the State of Oklahoma begging for us to give him fuel oil and diesel fuel so that they could harvest the wheat crop down there, and we don't even have any distribution in that State. They're looking all over for fuel to harvest, and this is the biggest danger right now.

Chairman HUMPHREY. Our harvest is coming out of Texas and Oklahoma right now.

Mr. SAMPSON. Texas and Oklahoma are in harvest, and in 3 weeks Kansas will be harvesting.

Chairman HUMPHREY. You add to that the transportation problem, the storage problem——

Mr. SAMPSON. The drying problem.

Chairman HUMPHREY. The drying problem and the financing.

Mr. SAMPSON. And up here we haven't got it planted yet. So we got lots of problems. Now, we were greatly encouraged by the program that was announced by Mr. Simon of the oil policy committee for voluntary allocation. We contacted all of our historic suppliers. We've had interesting conversations, but we have yet to see wet barrel No. 1 in our plant. Now, this doesn't mean—this thing changes so fast from day to day that it doesn't mean that we may not have oil next week. We're like the dice roller, we live in anticipation.

Chairman HUMPHREY. My experience with that game has not been very profitable.

Mr. SAMPSON. Likewise. That's why I'm sitting here. But we have to be optimistic that something is going to happen and keep us going. Now, there are a number of things that we do believe should and need to be considered. One is that, while there's a possibility that voluntary allocation may work for the short term, we are extremely apprehensive that on the long-term pull voluntary allocations will not work and therefore we will face mandatory allocations or some other mechanism by which to achieve our objectives, and we don't think this is a short-term problem. We think it is a very long-term problem.

Chairman HUMPHREY. I agree with that. I think the point has been made here before that there's no quick catchup on this. It takes time to build pipelines. For example, one of our problems with the big tankers is the kind of port facilities we have. We don't have enough up-to-date modern deep port facilities to handle these huge tankers, when you're talking about the foreign imports. We obviously don't have enough refineries, and I don't care who you are, you build as fast as you want to, but 2½ to 3 years, that's about what it takes for a modern refinery of any capacity; and that's providing that the local people will give you a site, that you can meet the zoning requirements, that you can meet the environmental impact requirements. It's a major problem and the financing of a refinery is not exactly, you know, an afternoon experience. They're costly.

Mr. SAMPSON. Well, there are some statistics that I think are very interesting and significant. There's the fact that we are using in excess of 17 million barrels of oil a day in this country. We have refining capacity, running at 100 percent, of about 13 million barrels. We have domestic crude oil production of between 9 and 10 million barrels. So you can see the tremendous shortage. But making this even more perplexing is the fact that we're not using all of the refining capacity we have in this country, because our crude oil is dislocated. We're shipping crude oil out of Oklahoma into areas where they could bring in foreign crude and leaving refineries in Oklahoma without crude oil.

In and around the midcontinent area at this time right now, the latest figures I saw showed we had in excess of 300,000 barrels of unused refining capacity.

Chairman HUMPHREY. Yes, I've heard that.

Mr. SAMPSON. And this to us is a sad situation, particularly in the breadbasket. Now, there's another thing that we think needs to be done and that is we think we need to establish a Federal crude oil reserve, which is owned and controlled by the U.S. Government. It may be financed by gas taxes. I don't know how it would need to be financed, but we think we need the reserve.

Chairman HUMPHREY. Senator Jackson addressed himself to that matter yesterday in our discussion. We are contemplating—and this is, of course, just discussion at present—a 6-month reserve for national security reasons. We're depending on everybody's loving us and we're also depending upon reasonable price stability. I see where OPEC yesterday, what did they get, was it 11 percent price increase?

Mr. SAMPSON. Eleven percent increase.

Chairman HUMPHREY. In crude. Well, at least that gives some stability for a year, doesn't it? What was that, for a year's period of time?

Mr. SAMPSON. Yes.

UNIDENTIFIED VOICE. Until further devaluation of the dollar.

Chairman HUMPHREY. That was related to devaluation.

Mr. SAMPSON. Third, we think that we need to discontinue the use of fuel oil and natural gas for boiler fuels. We have adequate quantities of coal in this country to be used for boiler fuels. Once you take a barrel of crude oil out of the ground, you don't replace it. It's gone forever, and we have large amounts of coal that can be used for boiler fuels.

Next we think that we need to establish priorities of use. We heard about the transportation situation here this afternoon. We heard about the agricultural situation both this morning and this afternoon. These kind of industries are critical to the welfare of our country and therefore they need a critical product like fuel long before a man who uses that same product in his motorboat on a Sunday afternoon. That doesn't make us popular with that fellow that's running the motorboat, but we face a very serious situation.

Then we think that there has to be a real search for new sources of energy; nuclear energy, to exploit that; to develop geothermal energy and solar energy; to drill for oil in the Outer Continental Shelf; to make ourselves more secure in this whole field of energy, because with 6 percent of the world population in this country, we use almost 35 percent of the world's energy.

Chairman HUMPHREY. And it's going up this year.

Mr. SAMPSON. It's going up fast. We thank you for the privilege to address you.

Chairman HUMPHREY. I should say at this point, on the matter of development of alternative fuels, I sat with the specialists of the Joint Atomic Energy Committee of the Congress, and I'm sorry that we don't have that report with us. In fact, might I suggest to most of you here that are in the suppliers' situation that you might want to call on that committee to come out and make a presentation of how they envision future energy demand and supply and what they look for over the next 10 or 15 years. I spent about 3 hours with them in a session and they have developed some building blocks, so to speak, so that you can see diagramatically what the fuel situation is.

When you take, for example, if this were the block, the total block of energy that we know of—like solar, geothermal, hydroelectric, oil, nuclear, coal, whatever it may be—when you get right down to it, most of it boils down to fossil fuels. The one hope that we have is that we can get into what we call fusion, development of fusion which would be the nonpolluting type of nuclear energy. That could give us, they estimate, around 25 percent or so of our energy needs.

Even if you were to conserve on, let's say, insulating every home in America with the best insulation; and if you were going to turn out an awful lot of lights around that are used primarily for cosmetic purposes—not your street lights but for lighting up buildings at night, and so forth; and if you were to do a lot of the things that we're talking about here, even then the impact of that total amount of conservation on this graph of fuel use might maybe be about like that at the top—that insignificant. It would be about an inch out of the line that's let's say 12 inches high.

If you convert them into their equivalent in barrels of oil or whatever unit you wish to use, the geothermal possibilities appear modest. Oil shale—the big problem there is you have to excavate so much shale. If you dammed up the Grand Canyon and tried to get additional hydroelectric, it would have another maybe half-inch effect upon the total supply of electrical energy that you have in this country. One of our real problems is that the transfer of fossil fuels or any other kind of energy into electricity is a terrible waste. I mean, you get about a 35-percent conversion of actual energy units once you put it into electricity.

I also saw the report on automobiles, that our modern automobile, the automobile of the 1960's and the early 1970's, is much less efficient in terms of mileage and power per gallon of gasoline. The automobiles of the 1950's were the best. You got the very best out of those automobiles and every year now it goes down and, of course, with the environmental units that we're putting on, they've gone way down. We've added, you know, more things, more gadgets and air conditioners, and we've had tires with lower pressure and all this business, so that now we kind of float around in the air and everybody has a button he can push. You get fewer miles, a lower conversion of the gasoline into power and into mileage every year out of your automobile. They look prettier. They're bigger. They're so blame big you can't find a place to park them anymore. Well, enough of that. I had quite an experience on that.

You might want to call them out here some time, the Atomic Energy Committee, and I think we can get them out here to talk to you. You've got some of the best experts in the country working for you. Needless to say, some of our hopes for nuclear energy have never been realized. When you talk about planning, 10 years ago the plan was 20 percent by the year 1975, 20 percent of the entire energy of the United States would be furnished by nuclear power. What is it, less?

Mr. SAMPSON. Less.

Chairman HUMPHREY. Way down. They considered 10 years ago that we'd be able to build a nuclear plant in approximately a period of 2 to 3 years. Now it's 8. That is because you got all kinds of other problems. And we only have one breeder reactor being planned presently for experimental purposes, so we got a lot of problems ahead of us. The Japanese claim they can do it in 4, but it takes us 8, I guess. Well, the reason is that the Japanese just go ahead and build them, whether they might be next door to your house or garden, but they put them up. They had to make a cold choice. They don't have any coal or hydropower.

They either closed down Japan or they put up nuclear plants, so to the environmentalists they say, "Good bye," and they put the plant up. But over here we have a little different system, you know. In case you don't like it you can get a court order and you can get an injunction and you can have a hearing and you can call your Congressman, you can call your Senator, you can vote out your Governor, you can vote out your Senator. We all know about these things.

Mr. Everett, please proceed.

STATEMENT OF JERRY EVERETT, EXECUTIVE DIRECTOR, NORTHWEST PETROLEUM ASSOCIATION, MINNEAPOLIS, MINN.

Mr. Everett. Mr. Chairman, members of the Committee, please do not be frightened by the volume of paper. I shall give them to Mr. Cox.

Chairman Humphrey. What are those?

Mr. Everett. These are surveys of over 200 jobbers that will be introduced at a Cost of Living Council hearing next week. They are 200 jobbers in the State of Minnesota who either are running out of products now or will be out of products by the end of the year or are very short. It's documentation that we truly have a problem in the State of Minnesota; I think one of our major problems has been to convince people that it even exists, particularly the people in Washington early last fall.

Chairman Humphrey. We have a little trouble with some folks in Washington. Once they get west of Buffalo they get kind of lost. I mean, Buffalo, N.Y

Mr. Everett. Yes, we discovered that.

Chairman Humphrey. Go ahead.

Mr. Everett. My name is Jerry Everett and I'm executive director of the Northwest Petroleum Association. We represent the small business segment of the oil industry. Generally you know us as the distributors. We are all small independent businessmen. We own our own businesses and we buy the products we sell like any other business. Our members are both branded and unbranded and this is another difficult matter to get across.

What is the definition of an independent business man? As independent businessmen we were the very first ones to feel the pinch of the energy crisis. We have no control over high-level policies and systems and, yes, let's say the word blunders; yet we have everything we own plus a lifetime of hard work that are all now in jeopardy for us. Our members are very happy to salute this committee for hearings of this nature, for coming out to ascertain the facts from the grassroots.

We have delved into the problem since last summer and we have arrived at many conclusions as to the causes of our particular dilemmas today. One of them is the fact that there has been considerable garbage fed into some of our Federal systems and we can't expect much more than garbage to come out. We won't go into that any further.

Chairman HUMPHREY. I wish you would.

Mr. EVERETT. Well, sir, you are now following the same footsteps that we have before—if you wish me to I shall give you a particular instance.

Chairman HUMPHREY. Please do.

Mr. EVERETT. A statement made by the Director of the Office of Emergency Preparedness on September 19, 1972, that said they had been assured by the major refineries that there was sufficient refining capacity and that we would not have a shortage last winter. Two weeks later the Skelly jobbers started to call me; they were out of products. They were on allocation. Two weeks after this statement had been made by the gentleman in charge of the Office of Emergency Preparedness, and at the same time our other sources of product dried up. We had no place to go. That was 2 weeks after this statement was made.

Chairman HUMPHREY. Well, undoubtedly that's General Lincoln to which you must be referring?

Mr. EVERETT. Yes, sir.

Chairman HUMPHREY. He was undoubtedly assured that there was such supply as some of the rest were.

Mr. EVERETT. But somebody put garbage into the system; that is what we're trying to say. We are the little guy in the small town and hamlet in Minnesota, and as such we are responsible for the majority of the products delivered to the farms, to the small business establishments and transportation companies that keep rural areas humming. Needless to say, if we dry up for lack of products to deliver, the lifeblood of our small communities is going to dry up with us.

Chairman HUMPHREY. Let me just interrupt you. My staff member just called to my attention this statement from Senator Jackson in the Senate yesterday. He said and we know for example, that Texaco's chairman of the board wrote General Lincoln—that's the gentleman you referred to, then the Director of the Office of Emergency Preparedness—last July, about a year ago, objecting to the granting of more import quotas for finished products and stating that there's sufficient refining capacity available in the United States to meet anticipated demand for clean fuels over the balance of this year.

We know also that the president of Humble Oil, now Exxon, assured General Lincoln in September that the Humble Oil Co. could not speak for the remainder of the industry but felt that in a tight situation the industry would do its best, including going beyond its contract commitments if it were capable of doing so, and so on and so on. Senator Jackson and I and others yesterday presented a number of these statments that we have been able to check over the past year in which we were assured again and again, "Don't worry, gentlemen, we're going to take care of this. We've got plenty of capacity and we'll meet the needs."

Mr. EVERETT. That's what hurts us jobbers. If we dry up for lack of products to deliver, the lifeblood of our small communities will dry up with us. Our products are the one resource without which every thing else will become useless, and only you can prevent that very happening. Some types of control must be made and they must be initiated.

I bring to you today documentation for what I am saying. There are over 200 surveys right here, straight from the horse's mouth. It's not doctored information. It's not manipulated to show you what we want you to hear. They are cold, hard statements of fact from the small businessman that's living this nightmare every minute of the day and the night. I include night because, as you can guess for yourselves, we haven't slept very well for quite a while.

Because of the time-consuming volume of material in this pile, I will quote from just a few, and please understand they were sent out before the present allocation program was announced a few weeks ago.

From Wadena, "Our company has been in business since 1931. Our supplier has canceled our contract as of June 1, 1973. After that date we have 4 dealers, 400 fuel oil customers and 150 gasoline customers that we can no longer supply."

From Kent, Minn., "This is the worst condition we have ever been in. It wasn't this bad during the war. I hope we can keep the business going. If this keeps up the small businessman is finished. We haul gasoline and diesel fuel to 112 farmers that farm around 70 sections of land. They grow wheat, barley, corn, soybeans, sugar beets, and sunflowers. We will need around 60,000 gallons of diesel fuel and we will need 250,000 gallons of gasoline.

From Hibbing, Minn., "As an independent jobber, I have no contract with Wood River Oil & Refining Co., and as yet I have not received an allocation for 1973-74 heating season."

From St. Martin, Minn., "I have been a jobber since March 6, 1956, and have been asked to sign a mutual contract cancellation. The reason given to me was that my operation does not show enough net as I do not sell TBA. I have not signed this, as they did not approach me until 2 weeks before the contract automatic renewal date. I have not been able to locate another supplier. No. 1, what will happen to my farm and fuel accounts as I am the only supplier out of this village? No. 2, what will happen to my bulk plant that I've worked for all these years if I'm phased out?"

From Cloquet, Minn., "I am mostly concerned now with the complete cancellation effective June 30, 1973. They worked hard to get us to sign with them a year ago and at the time we switched two stations to them. Now they want to pull out and leave us without gasoline or fuel oil. We think this is wrong for them to leave us now. This leaves us without approximately 500,000 gallons of gasoline and 100,000 gallons of fuel oil that we badly need and counted on. Can you help us?"

From these and dozen of pleas we can't cover here, you can readily determine the urgency of the problem. They are available for your examination if you so desire. I brought them because I believe they are the main source of information to establish the fact that there will soon be great hardship. Handicap and chaos are not far away for Minnesota, and out of this chaos are going to come suffering and economic problems that may cripple our great State and cripple our great Nation.

I was asked to discuss the effectiveness of the present price-control program. Quickly, it is not working and it will not work! I'm going to defer further comment on this to Mr. Haglund.

Before concluding, I would like to take a minute for a quick summary of what we believe is necessary to survive. We believe because of the urgency of our problem, the immediacy of our problem, that the present voluntary allocation should be given a fair chance to work. We say this only because we already have invested a few weeks in the program. We're trying to make it work, but we also ask that a bill to make compliance mandatory, if the voluntary does not work, should be passed. It should be ready. It should be waiting. It should be on the shelf. We can't afford another year of waiting if this one doesn't work. It will go a long way toward making the existing voluntary program work.

Companies that have left the State or are in the process must be either replaced or returned immediately without fail. One of the worst problems we face today as jobbers is the lack of the gallons that they furnished us previously and then left us without.

Finally, plans and implementation of programs designed to solve the problem on a long term and lasting basis must get out of the talking stage and into reality as soon as possible. New refining capacity, new sources of crude, and new technology to provide for future demand cannot be delayed any further. New thinking must be injected into the ecological programs. Somehow a more balanced effort must be made so as not to destroy one set of values for the sake of another set of values. Conservation of energy in every way possible must be promoted, or possibly even forced, to help us over this gap period.

We are grateful to you for giving us the time to express our views and we are also very appreciative of the fact that our State has in Washington a fighting group of Congressmen, and at this time I would like to digress for one moment and bring a personal thanks for Senator Humphrey from the Sun Oil jobbers in the State of Minnesota for saving their lives. The Senator did it personally. We worked with him on it and they sent their thanks, Senator.

In closing, I wish to give you my answer to a question that is asked dozens of times wherever I go. They all want to know whether an energy crisis really exists, and my standard answer has been, "You would know a crisis exists if you'd be sitting in my chair for the past 6 months and heard the pleas for help I get from my members." Gentlemen, I'm here to pass those pleas on to you. Thank you for the time.

Chairman HUMPHREY. Thank you very much. We'll come back, I have a question, but I thought maybe we'd go to Mr. Haglund first. Mr. Haglund, please proceed.

STATEMENT OF GORDON HAGLUND, CHAIRMAN, FUEL OIL COMMITTEE, NORTHWEST PETROLEUM ASSOCIATION, MINNEAPOLIS, MINN.

Mr. HAGLUND. Thank you, Mr. Chairman. I would first of all indicate—I'd like to clarify my position. I am a jobber, an independent; Union 76 branded jobber in St. Cloud, Minn. I also am speaking today on behalf of Northwest Petroleum as their fuel oil chairman.

Much of what I would say has already been said. I think I've been accused of being an alarmist for a year now about what you heard today. I don't think that anyone can be too much of an alarmist. I think we recognize after these discussions that the problem is really here. I would like to make a comment, perhaps, in defense of the president of Texaco and others when they indicated to General Lincoln that they expected more products, even though it's not my business to defend majors, because they are my adversaries too at times. We have to remember that we had a 9-percent demand increase for distillates last winter and in light of the mild winter no one could really anticipate this.

Chairman HUMPHREY. To what do you attribute that? How did that happen?

Mr. HAGLUND. The biggest single reason, Senator, was in my opinion the shifts among types of fuel. Northern States Power used 100 million gallons of No. 2 distillate or distillate fuel oil last year. A few years ago they used very little. Northern States Power had no choice. They had to produce electricity. They built peaking plants all over the State for the purpose of satisfying peak period demands, but they couldn't get their large centrally located plants approved for one reason or the other, largely because of the pull back from coal. They had to use their peaking plants to satisfy their base load and, as the gentleman from the transportation industry said, too many people are competing for that gallon right now. That's where we're at and it is serious; we can, you know, we can be so critical of people doing this wrong and that wrong, but I think we have to get down to the fundamentals of what caused it.

Chairman HUMPHREY. I think that's a very fair statement and, by the way, I've talked with the Texaco people and they've been very cooperative in testifying and visiting with us, and I don't want my comments to be an affront upon them, because they really have tried to cooperate. But let me say this: I think what happened here is characteristic of our problem; when we put in the Environmental Protection Agency with the environmental protection laws, nobody in the Government talked to, you know, the Department of Interior people and the Office of Emergency Preparedness; it's like they were off in Afghanistan, you know; and here was the Environmental Protection Agency coming in with enforcement action and tough standards compelling people to get off the coal and other high-sulphur fuels and to move into natural gas, fuel oil, and so on. There just wasn't any coordination and, believe it or not, up until the last week we've had the same problem with the Department of Defense. I've been on their back. I said, "Here you are a major user." It kind of makes other users look like a peanut shop, and we've had top officials in the Government say, "Look, are you coordinating these allocation programs and all of this fuel oil policy with the Department of Defense?"

One of the answers was, "Well, that's not in my jurisdiction." I said—I shouldn't say for the stenotypist here what I told him. I said, "Well, you know, it's like these agencies are small separate members of the United Nations rather than parts of a government." I agree with you, I think this has been one of our real weaknesses. You know, like everything, we should have done something about it. We just passed a bill now that sets up an Energy Council that will take

60 agencies of the Government—mind you there are 60 agencies all messing around in this—and try to bring them together so at least they'll shake hands once a year. I think that's a good thing; then maybe they'd start communicating with each other. So, I think you touched on something here.

Mr. HAGLUND. I agree. Here too, you know, our way of doing things is that we apparently need a crisis before we move; and there's no kidding anyone. The public still doesn't really believe we have a crisis.

Chairman HUMPHREY. No, they don't. Let me give you an example of that. I introduced this Senate Joint Resolution 98 in April, and afterward I sat down in my office and thought to myself, "I see my friends are almost gone."

I thought this was a major piece of legislation because it laid out exactly what you gentlemen are talking about, including the lack of coordination in the Federal Government. It set up a system. It set up a major board as well as a coordinating mechanism. I want to tell you something. The only person I introduced it to was myself and the Presiding Officer of the Senate. I used to come out here and I'd go to meetings and tell people, "I wish you'd get interested in this." I really have no complaints in life, but it was sort of like whistling in the dark. Now all at once it becomes important. Now, you know, the way Congress does things is that everybody gets on it about the same time and we pull all this together into one bill in the appropriate committee. So, we have S. 1570 which represents about 10 different efforts that are being made. You are right, we finally come to when the crunch is on, and I want to tell you it's going to be on a lot more this winter.

Mr. HAGLUND. Well, I think one of the things that has to be done here, again, is to get it into the public awareness, and that's beginning to happen; but golly, you know, it's awfully hard to convince the public that it's serious. We go about business as usual. You know we're still building the cars.

Chairman HUMPHREY. That's right, 13 million of them.

Mr. HAGLUND. There's still no energy study of new buildings going up. Literally nothing is being done in the conservation field, and until that begins to show I don't think we're going to really convince anyone, but we better start planning.

A couple things, one that Jerry mentioned and asked me to touch on: that is the mandatory price controls. I think it is important to know that they are causing some real disturbance. Things are happening that just make no sense at all. In our market one major can be selling at as much as 2 to 3 cents difference from another major at the wholesale level because he's got more foreign input than the other one. There's got to be some mechanism to differentiate between foreign and domestic oil. This, of course, is damaging to supply. It's always economically damaging to people depending on where they're at. We have as much as 10 cents per gallon difference on the same product. So, this is one of the problems that is a result of controls and this is the danger of controls. You know, we're talking now about mandatory controls. We frankly don't see any way out of them. I wish to heck we could. I don't like this.

Chairman HUMPHREY. No, I agree with that. I predict that we'll have a lot of trouble under it.

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Mr. HAGLUND. We're going to see more inequities there than I think we have even now. So, I would hope maybe to address a little bit some things I see in this mandatory system that hopefully would be taken into consideration when and if they are imposed.

First of all, the first thing to talk about is who's going to handle them. I think Jim Erchul; I was at a meeting with Jim and Mr. Simon when this was talked about, and Mr. Simon was discussing the possibility of the present voluntary controls becoming mandatory, and both Mr. Erchul and I made the point that the States need to be involved. They know the local situation. They know where the crunch is and where some priorities may be different in their States from another or one community from another. I would hope that somehow some flexibility can be developed in there to get the States involved. Now, some States throw up their hands and want nothing to do with it. If they had the problems and had been involved in this as Mr. Erchul has been, I think they'd be much more interested in getting involved.

Hopefully any mandatory controls—and here again you have alluded to this, Senator—need to be part of the overall national energy policy. What you do on one side affects the other and policies have to be coördinated, including price controls, conservation, foreign policies, and certainly balance-of-payments policy, and you know them all. Coordination is the thing I'd like to emphasize.

Jerry Everett touched on the question of how you bring back under mandatory controls the people that have gone out of business; you know, they're gone. These people are no longer in business and that's a very serious thing that has to be spoken to.

I am a little uneasy about mandatory controls also because how do you honor legal contracts? I suspect that you are now proposing that they would be disbanded. I see some inequities here. I personally happen to believe that there is a difference between people that buy on the spot market and people that have bought under contract. People that bought on the spot market have operated on low margin and have developed big volume on lower margins. Others that have been on contract over a long period of time have not had that advantage, and if you are going to allocate on the basis of what was brought in a base period and then apply the same percentage cutback to every one, I suggest that the fellow that had the big volume during that base period is going to have a tremendous advantage and I don't quite know how to rectify that.

One thing that I have never heard anyone talk about when talking about an allocation program is allocating all energies and taking into account everything. All I have heard talked about is liquid fuels. That's been the only concern. However, what happens to liquid fuels affects natural gas and electricity and vice-versa. I think if we have to allocate we have to get involved in all enegries and find a way to coordinate all of them because, for instance, if the utilities cut off the standby business even more than they have, they're going to have less gas available for that class of trade than last winter. So, there needs to be some coordination there.

Along that line I'd like to report what's happening in St. Cloud a little bit. We really felt this thing, perhaps more so than any part of Minnesota. Minnesota's kind of a problem for the Nation. St. Cloud happened to be the problem in Minnesota in our opinion. We were being subjected to a one-third withdrawal of products from the town by people going out of business and by the announced withdrawals of Gulf and Sun. Through the efforts of Senator Humphrey and I think through the voluntary controls and the fact that the situation is different now from what it was when some of these people announced their withdrawal, we see some relief. So, it's not as critical as it was, but in anticipation of the fact that we will have more problems, our mayor appointed an energy study committee. In addition to me, it involves Northern States Power's division manager, Mr. Lew Crain; it involves industry with Mr. Bill Ball of Digurik Corp. and Mr. Bob Wick from St. Cloud representing State College and the public. Here's a group that's trying to do something about a local situation and getting into conservation. We will have a conservation symposium or meeting for industry next month suggesting ways to save; we're not waiting until November or December when it would be too late to take corrective action.

We have a public awareness program developing to indicate to the public some of the things they can do. There's been a lot of programs along this line. I think this is positive. We think that local communities have to get involved and do something to protect themselves.

Mr. Sampson mentioned that in the long term we need mandatory controls. My observation is anything mandatory over a long term has to break down. I'm concerned about them now, but I think in the longer run we really have to find ways to conserve and find ways to increase the supply. I'm very much in favor of the Alaskan pipeline or the pipeline from the North Slope coming down through Canada. You indicated it had to come both ways. I don't disagree with that, but I'm afraid of what actually will happen. If it goes the other way, we're going to wait a long time before it ever comes this way. I have made a thorough study of the Mackenzie Valley Pipeline, which you are aware of, and this document indicates that that line could go both ways. The pipelines are already in existence going from Edmundton to Puget Sound on the West Coast and right into Minnesota and North Dakota. What we hear constantly from those that oppose a line coming this way really breaks down into three issues.

No. 1, it will cost way too much. No. 2, it would take too much time, and No. 3, Canada doesn't want it. And a lot of this the Interior Department has taken a very tough stand on. They want it to go the other way and they say it must go the other way. To support their position they say it would cost $10 million and it would take 10 years to build the Mackenzie Valley system. This study proposes that the line can be built in Edmundton in 3 years and, incidentally, it's interesting to note that this report was made by a consortium of oil companies. This is by Mackenzie Valley Pipeline Research Ltd. and it has made a very detailed study.

Chairman HUMPHREY. Could I have a copy of that?

Mr. HAGLUND. Yes; Senator Mondale is very involved in it and I've also been involved in the House of Representatives with John Anderson. So it's being pushed and I was also very interested to hear just yesterday that a Midwest caucus group is developing in Congress.

Chairman HUMPHREY. We have that active group.

Mr. HAGLUND. And it's going to meet on this, not on necessarily this, but on our Midwest situation.

Chairman HUMPHREY. We used to meet every Wednesday noon.

Mr. HAGLUND. That isn't true in the House, is it?

Chairman HUMPHREY. Not yet, but we have a Midwest Senators' group.

Mr. HAGLUND. And they go into some of these things and we think that's very positive. We need to look at it from our point of view and also the national interest, and in my testimony before the House 2 weeks ago I tried to make a case that it was in the national interest that the North Slope oil should come this way. I'm convinced that not 1 gallon of oil that goes to the west coast ever will get here and it could easily go to Japan.

Chairman HUMPHREY. I think it should be known also that the Japanese produce a lot of steel, and I know that when I was in Japan a couple of years ago that they were telling me how they were looking forward to the opening of those oilfields, because that was going to be their source of supply for low-sulfur type of oil. They have a serious problem with the sulfur in their oil because they've been getting so much of it from Indonesia, which has a high sulfur content, and their environmental problems make ours look like we got clean air in Los Angeles.

Mr. HAGLUND. The one objection I haven't seen anyone answer is that of the Canadian postion. It's unfortunate we havn't been negotiating long ago. As you are aware, I'm sure, the Minister of Energy—I believe his name is McDonald—has indicated a preference for the pipeline to come through Canada, but he does not necessarily speak for the Canadian Government. We have no high level way to know. So. I think that needs to be determined.

Chairman HUMPHREY. I don't think we have ever tried to find out.

Mr. HAGLUND. But Senator Mondale's bill would require that and so would Congressman Anderson's bill. I'm not saying that's the way it's got to go, but that this matter is so important and will have such a far-reaching impact for the next 50 years that, even if it is delayed 6 months, that delay is worth it to find out which route is better. So, I would ask that that be reexamined and hopefully some real serious consideration will be given to Senator Mondale's bill.

Chairman HUMPHREY. Well, I'm a cosponsor with the Senator on that and, needless to say, we have a large number of the Midwestern Senators.

Mr. HAGLUND. Incidentally, you might be interested in knowing that the National Oil Jobber Council which represents us at the national level—it represents 13,000 independent branded and unbranded jobbers throughout the United States—passed a resolution establishing the position of the national group supporting a line to come through Canada, which is the kind of thing I think has to happen. It has to have national support, not just Midwest support. Well, these are some of my thoughts. I thank you very much.

Chairman HUMPHREY. Mr. Comstock, please proceed.

STATEMENT OF WAYNE COMSTOCK, TREASURER, MINNESOTA ASSOCIATION OF PETROLEUM RETAILERS, MINNEAPOLIS, MINN.

Mr. COMSTOCK. Senator Humphrey and gentlemen of the panel, my name is Wayne Comstock and I own a major brand service station in Mankato, Minn. We've been in the service station business continuously for 35 years in Mankato. I'm here today representing the Minnesota Association of Petroleum Retailers, which is the only service station dealer association in Minnesota, and I believe I will begin by giving you a brief background of our association and how it came into being.

Six or seven years ago many of our major branded dealers were receiving excessive pressure from their oil companies to buy tires and accessories from the same company at noncompetitive prices. We knew this to be illegal at the time, but yet as individual dealers we had little power to oppose our landlords. A small group of dealers formed the MAPR, Minnesota Association of Petroleum Retailers, and hired legal counsel. Since then we have grown statewide and our basic function has been to preserve dealer independence and protect dealers' rights.

Gentlemen, we believe crucial changes have occurred in the past few months in the refining and marketing of gasoline which we believe will have a profound effect on the consumer motorist. The effect will be higher and higher prices at fewer and fewer service stations as competition at retail levels eventually comes under the complete control of the major oil companies.

In past years the refineries' level of production or the value of what is sometimes referred to as "the incremental barrel," governed the pricing practices of the major oil companies. As production increased and the tanks filled, oil companies would dump more and more gasoline on the open market. Price discrimination ran rampant. Oil companies would price high to one dealer and low to another, which resulted in massive unfair competition at the marketplace. Oil companies building construction, as you have witnessed, also ran rampant. Unneeded service stations were built on every corner. Real estate promoters had literally a heyday. Oil companies were always good for an extra $25,000. At the same time our major oil dealer turnover was in excess of 30 percent annually. Unbelievable.

Chairman HUMPHREY. Higher than school dropouts.

Mr. COMSTOCK. Yes, sir. Incremental barrel economics is now dead. Major refineries are moving downstream into retailing as a source of profit rather than seeking their profits primarily at the crude production 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 nonbranded distributor and dealer is no longer needed as he was in the past as a place to dump the cheap incremental barrels from refineries. Second, the jobbers, agents, and gasoline brokers, both branded and unbranded, are now expendable. Third, we believe refiners will integrate forward into the retail market with new brands and self operation of their choice locations. The result, of course, will be complete control of gasoline from wellhead to nozzle. Once the majors take over the retailing function, price competition for all practical purposes, insofar as the consumer motorist is concerned, will be at an end.

As dealers we have never been concerned about competition between ourselves and independent dealers, but rather that the independents have often received gasoline from the same suppliers at a much lower price than it was sold to the branded dealers, hence price discrimination. Frankly up to now many branded dealers are not unhappy at the curtailment of gasoline deliveries to the independents, but we feel that the weapon used to destroy independents and many jobbers can just as easily be turned upon our own dealers tomorrow. Many dealers are presently being required to enter allocation agreements. The power to allocate is the power to discipline and control competition. If gasoline must be allocated, then that allocation must not be left in the hands of the refineries themselves. To do so is to insure that retail competition is a thing of the past in the marketing of gasoline. We believe gasoline should be available to all retailers, independents, and branded alike. However, price discrimination among the jobbers, dealers, and independents should cease and the allocation of the gasoline should be left—should be on historical basis only.

As much as I disfavor the intrusion of the Government into the competitive arena, if the oil companies will not provide for fair competition I believe this is an instance where Government intrusion is needed to preserve the integrity of competition. Problems we are attempting to solve now were predicted in congressional hearings and other places years ago and yet no one would listen, and Government continued to follow policies favoring big oil companies at the expense of the consumers. We now have a policy, gentlemen, of too little, too damn late. If we are to solve this problem we must prohibit oil companies from further monopolizing the retailing of gasoline no matter what subterfuge or device they utilize to do so, gasoline shortage included. If the service station dealer, independents, are not preserved, I believe gasoline retail competition will disappear and once again we will have done too little, too late.

Gentlemen, what we are asking for is not new to anyone in this country. We want the right of free enterprise to prevail in the retailing of gasoline. We don't believe our landlords, whether they be major oil companies or not, should have the right to dictate what brand or brands, mind you, of gasoline we should sell. We don't believe our landlords should be allowed to force their tenants to pay higher prices for gasoline which they sell to independents for less. We believe the major oil companies should be prevented from entering into the retailing of gasoline. The developing practice of using new brand names as a mask for this would eventually drive out all free enterprise and competition at the gasoline pump. We believe that to allow 10 percent of the total product to be sold to independents and 90 percent to the majors would create more problems than it solves. You would then have 10 percent free enterprise and 90 percent monopoly. What the country needs, gentlemen, is 100 percent free enterprise at the retail level. Let's get all gasoline into the open market where it belongs without price discrimination, and if allocation is necessary that power should not be put into the hands of the refineries.

We urge you not to procrastinate, gentlemen. The time is now. Too little, too late this time could be fatal to the interests of the consumer. If the majors are allowed to cancel leases after 40 years of service, as Senator Humphrey read this morning, and are thereby allowed to monopolize the retailing of gasoline and are given the power of allocation, the consumer is in for one of the biggest business rip-offs of all times.

Chairman HUMPHREY. Thank you for giving the full text of your statement. That's a powerful statement. Let me see if I understand. You represent the Minnesota Association of Petroleum Retailers, right?

Mr. COMSTOCK. Gasoline dealers, yes, sir.

Chairman HUMPHREY. Are you aware of the amendment that we adopted yesterday in the Senate?

Mr. COMSTOCK. No, I'm not, sir.

Chairman HUMPHREY. Well, some of us joined together in an amendment. This was just an open amendment. Senator Moss of Utah was the prime mover and the rest of us were cosponsors on it.

It does two things. No. 1, it assures, for example, what we called protection of dealers:

> A petroleum refinery or a petroleum distributor shall not deliver or tender for delivery in any quarter to any petroleum distributor or petroleum retailer a smaller quantity of petroleum products than the quantity of such products delivered by him or his predecessor or predecessors during the course of any quarter in the base period, unless he delivers to each petroleum distributor and petroleum retailer, to each business and enterprise, the same percentage of the total amount as is delivered to all such distributors or retailers.

In other words, you can't discriminate between the name-branders and non-name-brand stations, so to speak, in the volume you deliver. I mean, you have a base period. You are going to get a fair allocation in your base period.

Mr. COMSTOCK. Our concern has always been not so much the allocation. It's the pricing.

Chairman HUMPHREY. The next one is on price:

> A petroleum refiner or petroleum distributor shall not sell petroleum products to a non-franchised petroleum distributor or petroleum retailer at a price during any calendar month which is greater than the price at which the same petroleum products are sold to franchised petroelum distributor, or vice-versa.

In other words, the price structure must not be discriminatory, and we adopted that amendment by a rollcall vote. So, it's in the bill and I'm glad to hear what you say, because I'm going to take your testimony back and put it up against the language of this amendment to make sure that we have locked in this reference to what you have had to say about it.

Again, I want to tell you that in my amendment that will be coming up with Senator Jackson as my cosponsor—an amendment on the Federal Trade Commission and the Justice Department—we are asking within 6 months a full report on the whole structure of the production, the refining and the distribution from crude oil, whether it's imported or domestic, up to the retailer. The whole pattern is to be given to the Congress of the United States so that we have something to work with rather than these old fashioned ideas. The last study of the petroleum industry was in the 1930's. We haven't had a major study made by the Government of the petroleum industry since then.

Secondly, we want to make sure that there are not monopolistic practices, or practices that lend themselves to vertical integration.

Mr. COMSTOCK. They have existed for many, many years.

Chairman HUMPHREY. Yes; they may have existed, but what we worry about is that there is now, under the shortage, the environment for a greater spread of this practice. None of these amendments, you know, are a remedy. All they are really is a way to put a check on and monitor what's going on, and hopefully to alert you in the private sector as well as people in the Government to take a look at what we've got and what we ought to have.

Mr. COMSTOCK. There is one other concern that I have had personally, and I didn't mention it today. Here in Minnesota there has been some action on it. As of July of next year, I believe, we are to indicate the octane ratings of gasoline in Minnesota, to post them on our pumps. and I believe this is a step in the right direction, because in the past for the consumer to determine the ability or the quality of a gasoline by its brand name was totally ridiculous. Just absolutely impossible. But, Senator, I believe we need a better performance rating than octane. I mean. octane is a little bit like a man going to a shoe store and saying, "I'd like to buy a pair of shoes," and the shoe store man would say, "Well, what quality shoe would you like?" And the man would say, "Well, 10½D." Octane doesn't mean that much. It's a good piece of legislation, but I think the consumer is wising up out there. They expect to have—they want to know what's in the box.

How do you know when you buy a gallon of gas from a major brand station—possibly you are paying 2 or 3 cents more for it—how do you know the quality of that gasoline dictates 2 or 3 cents more? I think the consumer deserves to know this and I believe the Government could possibly come up with a good performance rating. Mobil attempted to do this some years back. They called it a megatane rating, but the majors have been frightened to post their octanes and their performance ratings on the pumps because evidently they had something to hide. The Federal Trade Commission attempted to pass this ruling and I don't know who quashed it. Somebody stepped on that one.

Chairman HUMPHREY. Let me just say on my experience over the years with some of the refineries out here to get allocations for our domestic refineries in Minnesota. no matter which administration was in, whether it was Kennedy or Johnson or Nixon, I've been very active to try to help our refineries, as some of you know, to get their import tickets. It has been a major monumental task with that oil imports committee or board that we used to have over there; I always figured they were just dead set against us. I didn't care who was in there. I'd always really have to go to the President to ever get anything done. They just seemed to be locked into the majors to a point where we couldn't move them. Time after time our refineries, from up in Superior clear on down to Oklahoma, would be literally without the tickets that they needed, you know. for the trade with the majors to get the crude, and it's been a constant battle.

Quite honestly the refineries have had to go to their Congressmen and Senators, no matter what State it was, to get some help, and it shouldn't have to be that way. You shouldn't really have to talk to us. That's a fact. It should work so that it's all your enterprise. It's done businesswise, but when you get the Government in, I have to be frank with you; if we get mandatory allocations we're going to have severe regulatory problems. I support mandatory allocations not because I like them. I think it's the lesser of the two evils right at the moment.

Again, the thoughtfulness that you've given here—I should say the suggestions—can be helpful. My resolution, for example, goes into a much more elaborate description of who should serve on a board, for example. If we set up a board on mandatory allocations, I want to be sure that men like yourselves—some of your organizations—are represented there. I don't want somebody on the board that just graduated from Dartmouth Law School and decided he's got a new idea. You know, I've been down there too long. These 30-year-old wonders are great. I'd like to be 30 myself, but I know a little more about some things than I did when I was 30. I'm not sure about everything, but some things I do.

Mr. COMSTOCK. Senator, do you think there's any hope in the future that you could drive into a service station and possibly buy more than one brand of gasoline, like in a supermarket or franchise store? He may have a franchise but he can buy two or three different brands of milk or bread, but have you ever noticed when you drive into a service station that you only get one brand? Could that possibly be a monopoly?

Chairman HUMPHREY. There is as you know now legislation directed toward this, toward the whole system of franchising. There is the possibility that I've heard about that you still preserve in some places the franchise station, but also if another individual wished to buy a franchise brand and he had, you know, a minor brand, he could have both. In other words, there could be two or three different brands, two or three different kinds of pumps. That's been talked about. I think it's too early yet to make any conclusion as to what can happen because there is a kind of rule of law that has developed over a long period of time on what we call the franchise, the right to develop a name brand, to develop a trademark, and you have the vested interest in the trademark and so forth. I personally think that most of the vested interest ought to be related to being able to protect your name brand, being able to protect what you develop as through your advertising and so forth. If you get this vertical kind of structure where you own something from the top to the bottom, that's what's going to be your trouble.

Mr. COMSTOCK. Minnesota has just passed a franchise bill that I think is a tremendous step in the right direction. I was just thrilled to hear about it. It will protect many dealers and jobbers leases. Unjust lease cancellations in Minnesota are now somewhat protected. We do have an instrument to use.

Chairman HUMPHREY. A couple of quick questions. Mr. Everett, of the almost 900 stations said by the Office of Emergency Preparedness to be closed in the United States, now fully 20 percent seem to be in the State of Minnesota?

Mr. EVERETT. Yes, sir.

Chairman HUMPHREY. Yet we're only 1 State in 50 with about 2 percent of the population?

Mr. EVERETT. Yes, sir.

Chairman HUMPHREY. Why have our people been singled out for this treatment? What kind of water do we drink up here that causes this to happen?

Mr. EVERETT. The majority of the stations that have closed, Senator, were the independent stations to start out with and, as we said, their suppliers withdrew from Minnesota completely—the Triangles and the Bells. This is the majority of the places that closed. Now, that figure is a little light. We've been working on it this week and it's pretty close to 200 stations closed. But that's our reason in Minnesota. It was the end of the line. The suppliers pulled out and left them high and dry and you didn't have anything like this in any other State in the Nation.

Chairman HUMPHREY. I know. When I'm down in Washington talking about this, why some of my colleagues say, "Well, here comes the Minnesota problem again."

Mr. EVERETT. I can understand that.

Chairman HUMPHREY. A question came up. How many stations have been stranded by other companies other than the ones that you indicated, Triangle and—what was the other one? Bell?

Mr. EVERETT. I don't have a figure, Senator. There are some where a major oil company has canceled a jobber's contract, like Luverne, for example, but I don't have an accurate figure on that.

Chairman HUMPHREY. This is where actually a station has a name brand, a franchise?

Mr. EVERETT. Yes, sir, and they have been abolished in the same way, not to the same degree by a long ways. Of course if it goes on like it is, many of the jobbers I'm talking about finding themselves without products between now and the end of the year are branded. Some of them have as many as 16 or 17 stations, and if we don't get the product they're just plain going to be closed.

Chairman HUMPHREY. Mr. Comstock, do you have any information on the number, if any, of new stations opened by the majors, including cut rate brands in the last year?

Mr. COMSTOCK. No; I don't. I have a personal thing that happened. At the very time that Gulf was thinking of pulling out of Minnesota, they were constructing a new service station right next door to mine. It's unbelievable. There was a statement made here earlier that General Lincoln was assured by Texaco there was ample product available; I find this not inconsistent with the past performance of major oil companies. They have a history of unbelievably poor management. They haven't had to be managers. They just keep the pump going. If they got extra gasoline, they'd dump it; they'd burn it; they'd spill it. Don't worry about expenses, they'll handle it. If you want a corner, buy it. If you want an extra $25,000, take it. They weren't good business managers. We've always had to have our belts tight. They can't play that game any more so they want to change the rules, and I think the mask of the oil company has started to slip a little bit and the consumer is seeing what we in the industry have known for years. It's just drooping a little. I think we should pluck that mask off and take a good look at it.

Chairman HUMPHREY. See how they look when they wake up in the morning you mean?

Mr. COMSTOCK. Yes, let's take a good look at this industry.

Chairman HUMPHREY. All right. Fine. Thank you, gentlemen. You've been very helpful. Mr. Richards, would you like to come forward? Oh, let me see. Before Mr. Richards, I've been keeping Mr. Reed all day. By the way, some of you may want copies of Mr. Reed's statement. We have some extras and I want you to put them over there because Mr. Reed represents the Office of Oil and Gas and any of you that want one, we'll pass them out amongst you.

Mr. Reed, I know that you understand our situation here. Why don't you just kind of hit—we'll put the entire testimony in the record, just pick off a few of the things that you heard here and address yourself to them today, will you?

STATEMENT OF HON. J. LISLE REED, DEPUTY DIRECTOR, OFFICE OF OIL AND GAS, DEPARTMENT OF THE INTERIOR

Mr. REED. Yes, sir. Thank you. Mr. Chairman, I appreciate the opportunity to appear before you today to discuss the voluntary allocation program and relate to you other matters of importance in the energy area. The prepared statement is divided into four general categories, but in order to confine myself to the approximately 10 minutes as your guidelines indicated, I'll only discuss part of the first three items verbally; namely, circumstances leading to our present energy situation; the operation and administration of the new voluntary oil allocation program; and then a short discussion of the problems reported in Minnesota. I made a check in the office just before I left just to see what the status was.

The first thing to understand is that the demand for petroleum has grown rapidly over the past several years. At the same time, refinery construction in the United States has lagged far behind demand and crude oil and natural gas reserves have faded along with the incentives to bring them forth. Years of unwise pricing policies for natural gas have culminated in an aggravation of the present energy supply and demand balance. If the natural gas curtailments are imposed due to lack of supply, oil is required for replacement of the gas and this only worsens an already unpleasant situation.

The situation we are facing in energy is complex and care has to be taken in making simple statements to explain it, but with this warning I would like to mention what, in my opinion, is the primary reason that independents are having great difficulty in obtaining supplies. This country no longer has adequate or surplus crude oil producing capacity or refinery capacity. I don't see an intentional effort on the part of the major oil companies to drive the independents out of business. Simply stated, the oil companies can utilize in their own operations practically all the crude oil they produce and the products they manufacture. This is because their demand has increased, but their ability to produce has not. But nevertheless we do have a problem because of the relative distance from pipelines and the predominant role of the small independent companies in the area; the Midwest United States is a principal concern. Our mutual concern is magnified due to the concentration of agricultural interests in the Midwest area and the potential consequences to the Nation if supplies should be critically short.

Recognizing the serious nature of the gasoline and fuel shortage, we have taken action. The thrust of our efforts has been directed toward the independent refiners and marketers who have served isolated areas of the Midwest. Independent refiners can no longer get adequate supplies of crude oil. Independent gasoline marketers are in a different position. The wholesale market for gasoline is drying up. Independent gasoline stations around the country are threatened with closing down.

The voluntary allocation program seeks to assure distribution of adequate supplies of refinery products to independent marketers and adequate supplies of crude oil to independent refiners. The voluntary allocation program was announced on May 10, 1973, by the chairman of the Oil Policy Committee, being administered by the Office of Oil and Gas. A set of guidelines was drafted and published in the Federal Register on May 23, 1973. Since the announcement of the program on May 10, over 2,000 letters and telegrams have been sent to the Office of Oil and Gas by the industry and other interested parties.

Chairman HUMPHREY. What are they saying?

Mr. REED. About 668 of them complained of a problem of getting supplies. The others were just comments more or less on the program and on the idea that they supported it, they knew people were having trouble and they were glad to see some action taken.

Chairman HUMPHREY. Would it be possible for the Joint Economic Committee staff members to review those communications?

Mr. REED. Yes, certainly.

Chairman HUMPHREY. Thank you very much.

Mr. REED. Let's see, I won't bother going through how the program works. I think everybody understands it. It's the allocation program. Reactions to the voluntary allocation program have generally been favorable. A number of the major suppliers have been contacted and their cooperation was assured. While the problems are complex and the difficulties diverse, we feel the program can work with full cooperation of all parties, but this is a very important part. The voluntary allocation program is not a cure-all for the supply problems of the major or independent oil companies. The program cannot create a barrel of oil. We can get the most successful allocation program in the world and we're still going to have people short of supplies. As I mentioned earlier, since the program became effective over 2,000 telegrams and letters, as well as hundreds of phone calls have been received.

Chairman HUMPHREY. We got that information here about the different success stories, thank goodness, and I thought you might want to turn over to where we come to that action to increase supply. We're grateful for the Oil and Gas Office and what cooperation is extended, and I want you to thank Mr. Ligon for us on that. If you could move to where you talk about increasing supply.

Mr. REED. OK. I was going to just skip that section of the prepared statement and touch on the summary of the situation in Minnesota.

Chairman HUMPHREY. Well, we got that this morning from Mr. Erchul. I'm not trying to cut you off here, but I want to get to where we're going to get that supply.

Mr. REED. OK.

[The prepared statement of Mr. Reed follows:]

PREPARED STATEMENT OF HON. J. LISLE REED

Mr. Chairman, I appreciate the opportunity to appear before you today to discuss the voluntary allocation program and relate to you other matters of importance in the energy area. I would like to emphasize the relation of specific policies to agriculture and actions we have taken to alleviate recent problems. My comments are divided into four general categories:

1) Circumstances leading to our present energy situation;

2) The operation and administration of the new voluntary oil allocation program;

3) Discussion of the problems reported in Minnesota; and

4) Actions by the Administration to facilitate the supply of oil to the independent operator and consumer.

The first thing to understand is that the demand for petroleum has grown rapidly over the past several years. At the same time, refinery construction in the U.S. has lagged far behind demand and crude oil and natural gas reserves have faded along with the incentives to bring them forth. Years of unwise pricing policies on natural gas have culminated in an aggravation of the present energy supply/demand balance. As natural gas curtailments are imposed due to lack of supply, oil is required for replacement of the gas and this only worsens an already unpleasant situation.

The situation we are facing in energy is complex and care has to be taken in making simple statements to explain it, but with this warning I would like to mention what, in my opinion, is the primary reason that independents are having great difficulty in obtaining supplies. This country no longer has adequate or surplus crude oil producing capacity or refinery capacity. I don't see an intentional effort on the part of the major oil companies to drive the independent out of business. Simply stated, the oil companies can utilize in their own operations practically all the crude oil they produce and the products they manufacture. This is because their demand has increased but their ability to produce has not.

Because of the relative distance from pipelines and the predominant role of small, independent companies in the area, the Midwest United States is of principal concern. Our mutual concern is magnified due to the concentration of agricultural interests in the Midwest area, and the potential consequences to the Nation if supplies should be critically short.

Our projections indicate that stocks of diesel fuel for agricultural consumption should be adequate, due to the contra-seasonal nature of the agricultural demand pattern. In addition, there should be sufficient supplies of natural gas for the manufacture of fertilizers.

Propane supplies, however, could be a problem because propane requirements for crop drying could overlap into peak demand for heating fuels. In a normal winter situation, however, crop drying should be complete before cold weather occurs. In this case, propane for crop drying may be adequate.

Recognizing the serious nature of the gasoline and fuel shortage, we have taken action. The thrust of our efforts has been directed toward the independent refiners and marketers who have served isolated areas of the Midwest. The gasoline shortage has hit these independents hardest. Independent refiners can no longer get adequate supplies of crude oil. Independent gasoline marketers are also in a different position. The wholesale market for gasoline is drying up. Hundreds of independent gasoline stations around the country are closing down.

The voluntary allocation program seeks to assure distribution of adequate supplies of refinery products to independent marketers and adequate supplies of crude oil to independent refiners. The voluntary allocation program was announced on May 10, 1973, by the Chairman of the Oil Policy Committee. It is being administered by the Office of Oil and Gas. A set of guidelines was drafted and published in the Federal Register on May 23, 1973. Since the announcement of the program on May 10, over 2,000 letters and telegrams have been sent to the Office of Oil and Gas by the industry and other interested parties.

Under the program, each producer, refiner, marketer, jobber, and distributor is being asked 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 a base period. The base period is the last quarter of 1971 and the first three quarters of 1972. Also, on the basis of demonstrated need, the Office of Oil and Gas may assign an allocation, not exceeding 10 percent of any supplier's total sales of crude oil and products, to priority users unable to secure adequate supplies. Among these priority activities are farming, food processing, and health and emergency services. Prices charged for petroleum products shall not exceed normal refinery or terminal rack prices or normal delivered domestic contract barge or cargo prices charged by major companies in that specific area to that specific class of customer.

Reactions to the voluntary allocation program have generally been favorable. A number of the major suppliers have been contacted and their cooperation was assured. While the problems are complex and the difficulties diverse, we feel the program can work with the full cooperation of all parties.

But, the voluntary allocation program is not a cure-all for the supply problems of major and independent oil companies. The program cannot create a barrel of oil.

As I mentioned earlier, since the program became effective, over 2,000 telegrams and letters, as well as hundreds and hundreds of phone calls, have been received. Many people have reported an inability to obtain supplies and we are doing our best to respond to their immediate needs. Most of the major oil companies are cooperating with us to assure compliance with the guidelines, but I'll have to admit we are having the problems common to the initiation of any program of this magnitude. Although some cases remain unresolved, our office and regional field offices around the country are pleased by specific successes.

The Department of Agriculture has loaned staff to our office. These specialists are aware of the effect of critical shortages on the farming industry and are helping us to try to fill priority needs. We now have access to a computer terminal to aid in the processing of complaints. All complaints have been entered on the computer program. In addition, our staff is being augmented by personnel from other agencies within Interior. This will enable us to utilize a vast amount of field offices throughout the country and, in short, cover a lot of territory.

Let me describe two instances where the program has led to a needed redistribution of oil and oil products.

One involves the Northeast Petroleum Company, in Massachusetts, which had been supplied gasoline by Standard Oil of California and fuel oil by Sun Oil. Both of these companies terminated supplies to Northeast. When Northeast contacted them again, after the voluntary program was announced, Standard of California assured them that they were restoring supplies and Sun Oil promised to make every effort to comply.

In another instance, a contract between a farmer's cooperative in Oregon and Texaco expired on April 30. The Office of Oil and Gas, when contacted by the cooperative, asked them to call Texaco, inform them of the voluntary allocation program, and request their cooperation. The Office of Oil and Gas received a call the following day from the cooperative saying that Texaco had agreed to supply them.

In the State of Minnesota, we are encouraged by the cooperative spirit of major oil companies. Gulf Oil Company has recently released 2.3 million gallons of diesel fuel in the Midwest area. The Minnesota Civil Defense Department channeled over a million gallons of this total amount to Minnesota. The fuel is being used to relieve shortages.

The Minneapolis-St. Paul Transit System notified the Office of Oil and Gas that their gasoline supply had been cut back. It was felt that a reduction in transit service was inconsistent with energy conservation efforts. We contacted Amoco and, as a result, the full volume of supplies was restored.

In addition to these particular cases, our computer program indicates that 13 complaints have been received. The complaints are primarily from interstate trucking companies. They seem to be concentrated in two major problem areas. The supplier of diesel fuel for some of the cases reported signed a contract to supply diesel fuel to a power company and allowed his contracts with transportation firms to expire. The power company was previously consuming coal, but switched to oil. In another case, contracts for motor fuel were allowed to expire and trucking companies are now having to pay retail prices. In this latter case, there is not an actual shortage problem but a dissatisfaction with price. These specific cases are listed on the attached table.

Companies' adherence to the guidelines will be monitored and, if voluntary compliance fails, more stringent measures may be taken by the Administration. We are also going to hold public hearings on June 11–13, 1973, to evaluate the operation of the program and to determine whether all or part of the program should be made mandatory. We hope and expect, however, that this will not be necessary. If it is necessary, we would not hesitate to take additional steps to assure that priority needs for oil are met.

ACTIONS TO INCREASE THE SUPPLY OF OIL AND PROTECT INDEPENDENTS

Let me discuss at this point some of the steps we have taken to increase the supply of oil to the consumer. These programs also help strengthen the short-term position of the independent refiners and marketers, enabling them to establish themselves on a more enduring basis.

1. Recent changes in the Mandatory Oil Import Program provide that those holding import licenses under the old quota system will be allowed to import that oil without paying a tariff or a license fee. Additional oil may be imported if fees are paid. Because independents hold a large share of the "Quota Licenses," these independents will benefit directly from the new program, and to a greater extent than the majors. As a result, the independents should not have an improved competitive position in world markets.

2. 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. On April 18, 1973, the President, by Proclamation, removed volumetric import controls to make more crude oil and product available to independents and the Nation. Thus, the industry, both large and small, as well as the consumer have access to world supplies of crude oil and products.

3. Oil Import Appeals Board policies have been changed to make more crude oil and products available to independents. The Board has been provided with unlimited authority to issue fee-exempt import licenses, charged with specific responsibility for assisting independent refiners and marketers, and directed to require any major oil company requesting assistance to demonstrate inability to obtain import licenses through exchange agreements with independents or a willingness to supply established independent marketers and refiners with the same proportion or crude oil or products supplied in 1972.

4. Royalty oil from Federal lands is being allocated to crude-short independent refineries. Normally, the Government would collect royalty payments in cash. However, the option to take the royalty in kind exists, and this option has been used to channel approximately 65,000 barrels per day to independents. Another 100,000 barrels per day may be available under this program.

5. Perhaps the most critical short-range problem, however, is the supply of low-sulfur or 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 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 obtain or 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 our lower than the landed price of foreign oil.

We are concerned about the distribution of supplies for priority needs. We are concerned about independent operators who supply essential needs, and provide a vigorous and competitive service for the consumer. We are concerned when these independents suddenly, and often with very little notice, are closed off from supply. Therefore, we took action. We think the programs implemented are justified and we believe that they will produce favorable results.

LONG-RANGE SOLUTION

While striving to solve these very important short-range problems, let's not lose sight of the root of the problem, and that is the erosion of our ability to meet our own crude oil needs and the lack of domestic refinery capacity.

The President, in his second Energy Message, proposed several items that will provide a long-range and lasting solution to many of our energy problems.

I strongly urge that you support President Nixon's proposals:

1. Encouraging the exploration and development of crude oil and natural gas in the U.S.

2. Advocating approval and construction of the Alaskan pipeline.

3. Calling for energy conservation by all segments of the country, Government, industry, and the individual consumer.
4. Sponsoring research into means of better using our coal resources and developing nuclear energy.
5. Exploring the possibility of oil shale development.
6. Studying the potential of geothermal energy.
7. Enactment of appropriate land use planning.
8. Legislation to accommodate electric power plants.

Mr. Chairman, that concludes my statement. I thank you very much.

Company	City	Problem
Briggs Transportation Co.	St. Paul	Diesel and gasoline supplies curtailed as of Apr. 30, 1973.
Briggs Transfer Co.	do	Effective Apr. 30, 1973, at termination of contract, no fuel will be available. Reason is that Northern States Power Co. recently converted to No. 2 diesel.
Landy Packing Co.	do	Tanks are empty because of price increase. Contract not renewed as of Apr. 1, 1973. Company was spending 11.5 to 11.725 cents per gallon. Now having to buy on the road at 30.9 cents per gallon.
Century Motor Co.	Minneapolis	Amoco terminated contract as of Apr. 30, 1973. No fuel will be available. The reason is that the Northern States Power Co. recently converted from coal to No. 2 diesel.
Glendenning Motorways	do	Do.
Indianhead Trucklines	St. Paul	Do.
Weiner Continental	do	Do
Dean-Winty Transfer Co.	do	Has been buying gas at retail for 31 cents. Previous wholesale cost was 23 cents. Supplier will not renew his contract and will not furnish any fuel.
St. Cloud Aviation	St. Cloud	Airport has a 2-week supply of 100-octane aviation fuel and a 1-month supply of 80-octane aviation fuel. Their primary supplier cut them off several months ago and alternate supplier cut off their supplies last week.

Mr. REED. Aside from the allocations program, there have been several other actions taken in recent months by Mr. Simon to make more oil supply available to the independents as well as the consumer. One action is the recent change in the mandatory oil import program whereby the tariff was done away with. The import licenses that now exist will not have any license fee placed on them. So, since the independents hold more licenses in proportion to their size than the majors this will give them a little advantage.

Chairman HUMPHREY. Now, some of the independents here—I hear from the independents that this doesn't work at all. I've heard from some of the independent wholesalers, distributors and refiners—I should say refineries in particular—that these tickets, these licenses that you are talking about, the import licenses of which you say independents hold a large share, and from which you say these independents will benefit directly; I've heard that this is really only theoretical and from a practical point of viw it doesn't work because the tickets don't amount to anything anymore. They just don't make the crude available.

Mr. REED. Senator, it's relative to what they had before this action was taken. Before the action was taken the tickets were worth nothing. Now the tickets, because of the absence of the tariff, are worth at least 10½ cents a barrel.

Chairman HUMPHREY. But does that get them the barrel?

Mr. REED. Not necessarily.

Chairman HUMPHREY. Yeah, well, in other words, it's a 10½-cent bonus so to speak if you can get the barrel?

Mr. REED. The only way to increase it more would be to raise the license fee, and this, of course, places an additional burden on the consumer.

Chairman HUMPHREY. But again even if the price—and I'm just trying to pin it down, to see who's telling me what can be substantiated by evidence.

Mr. REED. They still cannot trade their tickets.

Chairman HUMPHREY. That's what I hear, despite the fact that, theoretically, it is as you say here; because independents hold a large share of the fee-exempt quota licenses, these independents will benefit directly from the new program and to a greater proportional extent even than to the majors. However, that is only if there is crude oil available that the majors are willing to release.

Mr. REED. Yes, sir, but relative to where they were before that action was taken they're better off.

Chairman HUMPHREY. Yeah, relative to where they were just a few months before the action was taken?

Mr. REED. Yes.

Mr. SAMPSON. I don't know if we can interject here.

Chairman HUMPHREY. What is your name?

Mr. SAMPSON. Sampson.

Chairman HUMPHREY. Yes, go ahead.

Mr. SAMPSON. I would certainly take issue with the gentleman here based on our experience. The import tickets at one time had real value. We not only were able to trade them for wet barrels at the interior refineries, but we were offered a premium in addition. At the present time we'd like to know where you can get even 10½ cents a barrel for them. Right now they are worthless to us and as far as getting crude oil into the interior refineries is concerned, they are not serving that objective, which we understand it is supposed to be the objective of the program.

Chairman HUMPHREY. That's the point.

Mr. SAMPSON. And it is a very unfortunate situation, as I mentioned earlier, that we have 300,000 barrels of unused refining capacity in the midcontinent area while at the same time we're shipping midcontinent crude oil to the coastal areas where they could bring in foreign crude. This is an absolute dislocation of product.

Chairman HUMPHREY. I wasn't looking for confrontation and I know, Mr. Reed, that you are here to help us. The reason I posed the question is that it comes to me all the time from the refiners in this whole area, in what we call mid-America. There was a time, let's say a year ago, when those—when we had the import quotas and our local refiners were able to get import tickets; those tickets actually had a premium value not only in money but in obtaining a wet barrel, in other words, the barrel of crude oil. Today, it's sort of like Confederate money, you know. It's money but it doesn't—nobody takes it.

Mr. REED. Senator, the situation has changed considerably from a year and 2 years ago. They got their oil then because there was surplus crude oil production in this country. There was enough oil to go around. The situation has changed dramatically. Foreign oil used to be much lower priced than domestic oil and therefore those import rights were worth quite a bit then. That's not true now.

Chairman HUMPHREY. That's what I was saying, I think your line here indicates the agency position here; namely, that things have improved considerably and that the independents, as you say, will benefit directly from the new program. My point is I don't think they benefit directly at all. I think they benefit only theoretically from the new program.

Mr. REED. They have a 10½-cent a barrel advantage beyond what they had before the action was taken.

Chairman HUMPHREY. But here's a man, this man, for example, from Midland Cooperatives, an old established firm.

Mr. REED. Yes, I'm familiar with the company.

Chairman HUMPHREY. And he says they can't get the oil and that there isn't a 10½-cent advantage. Now, between the two of you, you ought to settle this.

Mr. REED. Yes, they were trading their tickets before the action.

Chairman HUMPHREY. No.

Mr. SAMPSON. We have been trading tickets ever since 1959.

Mr. REED. Have you traded this year's tickets?

Mr. SAMPSON. We have yet to trade ticket No. 1.

Chairman HUMPHREY. Why?

Mr. SAMPSON. No one will trade with us.

Chairman HUMPHREY. That's exactly what I hear from the refineries. I just want you to report that back to Mr. Ligon.

Mr. REED. Mr. Chairman, we were under the old system for the first 4 months of this year.

Chairman HUMPHREY. This is going into the sixth month.

Mr. REED. But, under the old system, they said they could trade their tickets.

Chairman HUMPHREY. Well, they could trade their tickets—up till about January you were able to trade them?

Mr. SAMPSON. Until January 1.

Chairman HUMPHREY. And all at once somebody turned a new chapter. I mean, this scarcity became very obvious just about the first of the year, just like a lot of other things happened about the first of the year. Honest to goodness, it really bothers me. Now, Midland Cooperative is a responsible, respectable concern. They say they can't trade those tickets in and get the oil, even if they could get 10½-cent advantage. When you leave here this afternoon, you will do this country a great favor if you can get them producing at maximum capacity again.

Mr. REED. We would like very much to get them producing to maximum capacity.

Mr. SAMPSON. And we would be willing to sacrifice the 10½ cents.

Chairman HUMPHREY. All right. We'd like to have from the Office of Gas and Oil any information that you have of any refineries in midcontinent America, the Midwest area, that have been able to trade in their tickets with a 10½-cent advantage to get the crude oil, plus the 10½ cents. We'd like to have you present that for the record.

Mr. REED. OK. I don't have it with me.

Chairman HUMPHREY. I understand that, but that's a formal request from the committee.

[The following information was subsequently supplied for the record:]

U.S. DEPARTMENT OF THE INTERIOR,
OFFICE OF OIL AND GAS,
Washington, D.C., June 11, 1973.

Hon. HUBERT H. HUMPHREY,
U.S. Senate,
Washington, D.C.

DEAR SENATOR HUMPHREY: In the recent hearing of the subcommittee on consumer economics, which you conducted in Minneapolis, Minnesota on June 2, 1973, you requested from Dr. J. Lisle Reed of this office information on the following three items:

(1) How many exchanges of crude oil have been made as a result of the imposed value of 10½¢/Bbl?

(2) How many people have been helped by receiving allocations of free licenses from the Oil Import Appeals Board pursuant to the new guidelines?

(3) What is the status of the twenty cases that Mr. Erchul (Director of the Civil Defense Administration for Minnesota) claimed had never been entered into the Office of Oil and Gas program?

In answer to item 1 we must admit that we can not tell from our records for what reason the companies exchange oil. However, the exchange incentive of 10½¢/Bbl has been in effect since May 1, 1973, thus all exchanges since that date were on the basis of a 10½¢/Bbl ticket value. The attached list of companies have reported exchanging oil since May 1, 1973. Of the exchanges made, 9 of them were by companies who had not exchanged any oil so far this year. In addition, we feel obligated to point out that out of the 115 companies normally making exchanges only 59 of them have exchanged oil to date. Naturally, we expect the new voluntary allocation program to facilitate the remaining exchanges that need to be made.

In response to item 2 the following information is documented in our office. There have been 49,161,880 barrels of allocations made to 339 companies for finished products, mostly gasoline and some diesel fuel. There have been 47,839,265 barrels of offshore crude and unfinished oil made to 16 companies and 14,798,739 barrels of Canadian crude and unfinished oil allocations to 7 companies.

The imports for April and May of this year are not recorded at this time so we are not able to evaluate the quantity of oil actually being imported as a result of the new guidelines given the Oil Import Appeals Board. However, 751,457 barrels of finished products had been imported through the month of March. We presume that the companies seeking allocations intend to utilize the imported oil either by exchanging it or by using it directly.

Our review of the comment by Mr. Erchul (item 3) reveals that we originally received 14 comments from him. At the time the cases were submitted, an operations center was not completely set up, so the complaints were not entered on our computer. However, our staff was working to resolve them. On Friday, June 1, 1973, Mr. Erchul contacted the operations center to resubmit eight cases. The other six cases had been resolved by Mr. Erchul. The eight remaining problems have been recorded on the computer and are being studied by our staff and the Congressional Representative, Mr. Lewis Jennings (202-343-7693). He will contact you as they are resolved.

Mr. Erchul further commented that he preferred to work directly with the OEP regional office in Chicago. It has been our practice and intent, since the allocation guidelines were published, to have complaints entered through the field offices. The OEP field offices are coordinated with our Washington office now and we encourage Mr. Erchul and all others experiencing supply problems to contact the field office in their particular region.

Sincerely yours,

DUKE R. LIGON, *Director.*

Attachment.

REFINERY EXCHANGE AGREEMENTS

Date	Importer-exchanger	Exchangee	Current month's exchanges total barrels	Exchanges to date total barrels	Allocation total barrels	Balance unexchanged total barrels
May 3, 1973	Allied Materials Corp	Cities Service Oil Co	270, 000	270, 000	698, 975	428, 975
May 9, 1973	Anchor Gasoline Corp	Sun Oil Co	207, 079	407, 340	407, 340	0
May 21, 1973	Charter Co	Gulf Oil Corp	5, 324, 029	5, 632, 234	5, 632, 234	0
May 1, 1973	Claiborne Gasoline Co	Triangle Refineries	478, 362	478, 362	905, 565	427. 203
Apr. 25 and May 23, 1973	Continental Oil Co	M. & A. Petroleum Co	296, 605			
May 22, 1973	do	Mobil (revises 3,650,000)	1, 070. 000			
May 23, 1973	do	Cities Service Co	216, 000			
Subtotal			−207, 395	3, 727, 616	11, 789, 770	8, 061, 154
May 21, 1973	Crystal Oil Co	American Oil Co	115, 265	370, 417	434, 550	64, 133
May 8, 1973	Dorchester Gas Corp	Triangle Refineries	497, 495	497, 495	497, 495	0
Apr. 24, 1973	National Cooperative Refining Association.	Western Crude Oil	58, 012			
May 11, 1973		Atlantic Richfield Co	550, 000			
Subtotal			608, 012	1, 117, 512	3, 900, 283	2, 782, 771
May 1, 1973	North American Petroleum Corp.	Atlantic Richfield Co	700, 000	700, 000	724, 525	24, 525
May 8, 1973	Quaker State Oil Refining Corp.	do	522, 238	2, 335, 758	2, 404, 620	68, 862
May 4, 1973	Superior Oil Co	Amoco Oil Co	149, 927	152, 205	152, 205	0
May 17, 1973	Total Petroleum (N.A.) Ltd.	Mobil (revises 1,655,110)	830, 153			
Subtotal			−824, 957	2, 830, 153	3, 882, 140	1, 051, 987
May 1, 1973	VGS Corp	Clark Oil & Refining Corp.	1, 000, 000	1, 000, 000	2, 141, 455	1, 141, 455
May 15, 1973	Union Pacific Corp	Standard Oil Co. (Calif.)	428, 420			
Do	do	do	5, 248, 060			
Subtotal			5, 676, 480	5, 676, 480	5, 676, 480	0
May 1, 1973	Witco Chemical Corp	Standard Oil Co. (Calif.)	1, 424, 530	1, 424, 530	2, 599, 530	1, 175, 000

Chairman HUMPHREY. In the meantime, if you could help my friend over here from the cooperative movement. I'd appreciate it very much, because they've been keeping the Post Office alive by writing me letters, plus the fact that they came to see me just about Christmas time. Didn't we have our first go around about then?

Mr. SAMPSON. That's right.

Chairman HUMPHREY. And I thought I was going to be Santa Claus, but I didn't deliver a thing. I couldn't do a thing about it. I thought we had it made there for awhile and then they dropped the man from that Oil Import Appeals Board that was going to help you, remember?

Mr. SAMPSON. Yes.

Chairman HUMPHREY. That was right after January. Now, go ahead, Mr. Reed, please tell us more here now.

Mr. REED. Well, along the line of these actions?

Chairman HUMPHREY. Yes.

Mr. REED. The volumetric controls on oil imports were abolished and the license-fee system was substituted. This will allow the consumer as well as the oil companies to have access to world supplies of oil, thereby making more available in our country than was available under the volumetric controls.

There, the policies of the Oil Import Appeals Board have been changed to make crude oil and products available to independents. The

Board has been provided with unlimited authority to issue fee-exempt import licenses, charged with specific responsibility for assisting independent refiners and marketers, directed to require any major oil company requesting assistance to demonstrate the inability to obtain import licenses through exchange agreements with independents and a willingness to supply established independent marketers or refiners with the same proportion of crude oil or products supplied in 1972.

Chairman HUMPHREY. Now, could you supply for us the names of the refiners—now we're talking about independent refiners and marketers who have been assisted under this provision—the names—of the concerns the degree of help and the number; because it is generally perceived by those of us who have been involved in these matters thus far that this is essentially boilerplate and hasn't yet had any affect.

Mr. REED. That's entirely wrong. I don't have the number of companies right now, but I know that approximately 180 companies have received oil import licenses for gasoline.

Chairman HUMPHREY. Oh, I know, but how much have they been able to get?

Mr. REED. Well, they've only been at it for a month.

Chairman HUMPHREY. Then I'd like to know if they've been able to get the licenses and if supplies are available. I want to know why they're not getting their supplies. We just got to find out why these people are complaining. They're all around here complaining and apparently with great sincerity.

Mr. REED. Yes, they have problems. The price of gasoline in Rotterdam, Europe, is higher than in the United States.

Chairman HUMPHREY. Yes. So to have a license to import that under the cost-of-living controls doesn't do much good, does it?

Mr. REED. The high foreign price hurts, yes.

Chairman HUMPHREY. Well, in other words, the system is out of position. I mean, you know, this is a numbers game.

Mr. REED. Well, the prices charged by the independents aren't limited by the Cost of Living Council.

Chairman HUMPHREY. No; but do they have tankers? Do they have pipeline use? Do they have the resources to make these purchases?

Mr. REED. Well, Senator, no one has asked them to import the oil. They have requested the right to import the oil and have been given the right, so I presume they think they have a use for it.

Chairman HUMPHREY. Hasn't the system in the past, however, been based upon the majors doing the importing and then making available the crude; basically the majors doing the importing and making available the crude once it's at portside?

Mr. REED. The mandatory oil import program allowed very little finished product. It was almost all crude.

Chairman HUMPHREY. Yes; but who brought in the crude?

Mr. REED. I see what you are driving at. What a company like Midland usually would have done would be to buy some major's oil. They would be the importer of record. They never saw the tanker.

Chairman HUMPHREY. Now, the problem today is that when the major brings in the crude he just isn't making it available for the smaller refinery. That's the problem, and the other problem is on the refined product; as you well say, the Rotterdam price of gasoline is higher than the U.S. price that is fixed by the Cost of Living Council.

So you've got to be out of your marbles, you know, to be importing gasoline at a higher price than you can sell it for at home unless you are running the New York Welfare Department. So, these are the practical problems, you see, folks, that we have to deal with. I mean, this is business talk, and you and I got to work it out.

Mr. REED. Can I read item 5 from the prepared statement?

Chairman HUMPHREY. Go right ahead.

Mr. REED. Perhaps the most critical shortage problem, however, is the supply of low-sulfur 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 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 the inland independent refiners, 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 that of the landed price of foreign oil.

Chairman HUMPHREY. That's it. That's the kicker right there. The main thing many of these fellows are in business for—and that's a legitimate reason to be in business—is they'd like to make a little profit, they're not about to exchange commodities if they lose money on it.

Mr. REED. Yes.

Chairman HUMPHREY. Now, what's our long-range picture?

Mr. REED. Well, that's dealt with by the items in the President's energy message that reflect on the supply of energy.

Chairman HUMPHREY. And at the back of your prepared statement you have some of the instances of companies that have been assisted here, is that correct?

Mr. REED. No; these are the ones that are still unresolved at the present time. Now, this is perhaps a mistake on my part. We hear about the ones that aren't resolved and no one ever hears about the ones that are resolved. These are the ones we had outstanding in our computer program before I came up and I got them yesterday evening.

Chairman HUMPHREY. So these are the major ones you have from our part of the country?

Mr. REED. Yes; I might point out that a lot of the trouble for some of them is the fact that a supplier took on a new contract with a power company who switched from coal to diesel fuel. The supplier allowed his other contracts to terminate on diesel fuel. So he has a new contract with the power company to supply diesel fuel and the old contracts expired. He allowed them to expire. So, if we pull oil away from him, we pull it away from the powerplant. I don't know the facts behind the powerplant, but if it's an environmental constraint it looks like an unwise one.

Chairman HUMPHREY. We have a good deal of problem with this so-called sour and sweet crude. Again, may I say, this is a product of a failure that is not your fault or even my fault, although I suppose we could both accept our share of it; but of the failure of the Environmental Protection Agency. It is the failure of the environmental protection law to be related to what are the real facts of refining and the need for fuel product, because it's really turned the thing upside down, is what it's done. In other words, the area where we have the refinery that can't take the high sulphur oil is offered that grade of oil; the refineries that are capable of taking crude with high degree of sulfur in it and have the facilities to clean it up are getting the sweet crude. On the east coast they get first choice, you know; let's face it, they can pick. You know, like when you grow strawberries, you can pick the ones you like first before you sell them to the folks, and out here in our part of the country where our refineries are basically designed for sweet crude, they're trying to sell us the sour crude. This is like the Army, with the bakers running the trucks and the truckers running the bakeries.

Now, another thing here that I was concerned about, and you expressed your concern too, is where you said that the voluntary allocation program is working because complaints are fed into a nationwide computer system. You say that Minnesota has sent 13 complaints of his office sent to the Office of Oil and Gas were not recorded working as well as the picture you present. According to earlier testimony here, Mr. Erchul has informed us that about 20 of the complaints of his office sent to the Office of Oil and Gas were not recorded on the computer and in fact have been lost. Do you really believe that this computer list of 13 complaints actually reflects the problems here in Minnesota, or do you think Mr. Erchul doesn't know what he's talking about?

Mr. REED. I think there's a misunderstanding. The 13 complaints are the complaints unresolved. We've had over 100 complaints from Minnesota, but the bulk of them were resolved. These are the ones that are outstanding yet.

Chairman HUMPHREY. Mr. Erchul says he had 20 that were mailed to the Office of Oil and Gas and were not even recorded in the computer. In fact, they seem to have been lost. Are you aware of that?

Mr. REED. No, sir, I wasn't.

Chairman HUMPHREY. Will you look into that for us?

Mr. REED. Yes, I will.

Chairman HUMPHREY. He provided it to the committee and I'm going to suggest that we have Mr. Erchul write to Mr. Reed and give you that so we don't lose this. We'll see that Mr. Erchul writes to you so that you have a formal note on it. Is Mr. Erchul here?

Mr. ERCHUL. Yes, sir.

Chairman HUMPHREY. Jim, will you take care of that?

Mr. ERCHUL. Yes, sir, I will.

Chairman HUMPHREY. Now, you say, Mr. Reed, there is no intentional effort on the part of the major oil companies to drive out the independents, and we're hopeful that you are right: but somebody said to me going down the steps here as we went to lunch, "There's a lot of funny things going on here, Senator," Let me ask this question: Why are so many majors pulling out of our market—out of one market and going into another? Why are the majors profits shooting up while the independents are going out of business? Why are the prices of majors going up more than the 1½-percent rule under the Economic Stabilization Act?

Mr. REED. Well, can we take one question at a time?

Chairman HUMPHREY. Yes, sir. Why are so many majors pulling out of one market and going into another?

Mr. REED. I'd like to see the specific cases.

Chairman HUMPHREY. Right here in Minnesota.

Mr. REED. Quite possibly those particular majors don't have refineries here and they're pulling back to marketing areas closer to their refineries, because they're out at the end of their capacity limit. I don't know if that's the answer. That's just my hypothesis on it, based on the limited amount of data and facts I have.

Chairman HUMPHREY. Do you think this is something that the Oil and Gas Oil Office ought to look into? Why is Gulf pulling out of here, for example?

Mr. REED. Well, they probably haven't had success in marketing.

Chairman HUMPHREY. Well, fortunately Sun did not pull out its DX stations. DX has been marketing in here a long time. I've been using DX since I was old enough to drive.

UNIDENTIFIED VOICE. I've got a Gulf station, and after 20 years my contract is up and they say, "No gas. You are done." You can't get anybody else to take the station. What are you going to do with it? The taxes are $220 a month. I can't even give it away. You work all your life to get something like this and then all of a sudden, bingo, you've got everything pulled out from under you and there you are.

UNIDENTIFIED VOICE. A more specific example is Bell Oil. Bell is out in Oklahoma, the same as Midland Co-op. Midland is more than happy to do business in this area, but Bell Oil & Gas Co. saw no reason to continue. They're an arm of Swift & Co.; they were bought by Swift & Co. and all of a sudden they said that this is an area in which they can no longer afford to operate profitably. They operated profitably since Bell was formed as an independent company, just like Northwest was initially, and then bought out; then all of a sudden they decide they no longer can market here. I questioned why they can no longer market here profitably when Midland Co-op can operate; you know, is more than happy to market in this area. They were my basic supplier, my only source of supply. I'm able to obtain products now, you know, but the price I'm paying is like going to Amsterdam.

Chairman HUMPHREY. What's your name, sir?

UNIDENTIFIED VOICE. Daryl Peterson.

Chairman HUMPHREY. Where are you from?

Mr. PETERSON. North St. Paul.

Chairman HUMPHREY. What business do you operate?

Mr. PETERSON. I have an independent service station.

Chairman HUMPHREY. And you, sir?

Mr. NAKKEN. My name is Lee Nakken. My service station lease is with Gulf and I'm sitting there the 1st of July without any product. I agree with you; I can see no reason why Gulf comes up here willing to give you the world at the time they sign a contract and then, bingo, they will pull the rug out from under you and leave you high and dry.

Chairman HUMPHREY. I ordinarily wouldn't permit this colloquy, but this is at the end of the day. Mr. Reed, I don't want us to get into a defensive position. You're working for the Government, and I am, but really we're working for the people. You and I don't owe the Government a thing; everything we got we owe to these people out here. I didn't even know these people were going to speak up here, but I want you to hear what I hear; we are on the same side, you know.

Mr. REED. Yes, sir.

Chairman HUMPHREY. As far as I'm concerned, I'm interested in giving service to these people out here, and that's the purpose of the Oil and Gas Office. I know that's the way it is but sometimes when we get into these situations, you know, we get a little defensive about whether we're doing our job. The fact is we got a job to do and I want you to hear about this. One of the reasons I held you for this long today is not to be unkind or impolite, because I happen to think most men in Government work pretty hard. You are trying to do a good job. I just want you to hear what I get in my mail; I just sometimes want to climb up the walls, because everything I got or ever hoped to have, I got because the people in Minnesota were good to me, and I have a job to serve them. The simple fact is we have a heck of a time and we're trying to get some answers here which we're not able to get, and that's why I asked that question. Now, the next one that we had here is, why are the majors profits shooting up while the independents are going out of business?

Mr. REED. Well, I'm probably not in a position to talk about specific businesses or anything, but I think that too has a fairly simple answer. The bulk of the industry, the major oil companies, are running at near peak capacity. They've got all their plants filled up. They've got crude oil running out of the ground at maximum rates. These were facilities that were built 5, maybe 10 years ago, so they ought to be at about peak profit. In other words, they have facilities that were built a few years ago running full. Their profit structure shuold be in pretty good shape. Now, on the other hand, since the majors are running at maximum capacity and producing what they can handle through their own sales outlets, they've naturally withdrawing sales of gasoline from the wholesale markets and that puts the independents in a very precarious situation.

Chairman HUMPHREY. I think what the independents are worrying about is that just a year ago these majors were saying, "Why don't you take our gas? We've got some extra here. We'll give you a good price." That meant that some of the guys that were under the franchise were complaining because there was price discrimination. But now, all at once the doors have closed to the independents and that's what I think we have to look into. I want the Oil and Gas Office, along with this committee, without drawing any premature conclusions, to just take a look at these questions. These are questions that came not from me but from witnesses here. We have received widespread evidence. It is more or less conclusive that the petroleum product prices are being increased much more than 1½ percent, even if you average them out across the board and in many cases by much as 40 percent. Has the administration made any investigation of these price increases and the development of black markets? Has your office been in cooperation with the Cost of Living Council on this?

Mr. REED. No, sir, our office hasn't been involved in it. It's another side of government.

Chairman HUMPHREY. Well, I want to say that I think your office should and I'd like to indicate my interest in it, because you are on the supply side now; really you are a supplier. That's really what it boils down to. You are a superduper controller of supply, at least you try to influence allocations; isn't that right? So what you do and what you don't do is going to have a great deal to do with the flow of the available supply. It's going to have a great deal to do as to whether or not there's any real kind of black market operation, you know. So it does get into the price thing. If your voluntary program doesn't work or it doesn't work equitably then there's going to be cheating on it. People are going to have to pay bigger prices and there's going to be price discrimination. Here's the problem—the fact that you have a clear-cut line of authority and over there's the Cost of Living Council with another line of authority and never shall the twain meet. You just don't talk to each other about it. I want you to examine this when we get this record transcribed for your office to see, and I'm going to see that Mr. Dunlop gets it over at the Cost of Living Council. You take a look and see what's happening on this.

Mr. REED. On the communication between the Cost of Living Council, we talk to the Cost of Living Council a lot. We haven't had any discussions about charges that people have exceeded the 1½-percent limit.

Chairman HUMPHREY. I want to tell you somebody sure juggled the mathematics. My gosh, really, what you heard here today, these people aren't lying. These are people that are right out here in the field.

Mr. REED. Look at the numbers I brought you there on the last page of the prepared statement.

Chairman HUMPHREY. All right. Do you think this voluntary system is going to work?

Mr. REED. I would hate to prejudge it, Senator. We're going to have hearings, you know, June 11 through 13 and we're going to see how well it's working.

Chairman HUMPHREY. You haven't excluded the possibility, have you, of a mandatory system?

Mr. REED. No, sir; we haven't.

Chairman HUMPHREY. The authority is there under the Economic Stabilization Act.

Mr. REED. It is there, but we've been in operation under this program I guess for approximately 3 weeks. We think some people are a little impatient. We're trying to make it work. We're putting a heck of a lot of effort into it and we think now we have enough data to have a hearing that's appropriate and proper. We'll take whatever action after that hearing we think is appropriate.

Chairman HUMPHREY. Who are you going to have testify at that hearing?

Mr. REED. I haven't been in charge of rounding it up, but we have a lot of people that have requested to participate. We have people from all segments of the country.

Chairman HUMPHREY. We out here are having about the toughest problem of all; I think the facts indicate the problems prevailing here in this part of the country, in Minnesota and possibly the Dakotas and parts of Wisconsin. I think it would be very well if you would give some time to some witnesses from here; for example, Mr. Everett of the Northwest Petroleum Association, who spoke to us here; Mr. Sampson. I just mentioned two here. Surely Mr. Comstock, a man from the retailers. I hope that you'll get people, if not from Minnesota, at least some other midcontinent areas. We've got a problem here, a unique one. And don't forget the panel this morning. I know you'll have some agriculture people; don't just have those departmental people in either, because really—I know they're sincere, but they just haven't gotten out enough to see what's really going on out here.

Mr. REED. Senator, we're trying to let everybody in the country, every segment have a representation.

Chairman HUMPHREY. And you get ready out here because I'm going to ask—is it Mr. Ligon that will be in charge of those?

Mr. REED. Ligon.

Chairman HUMPHREY. Ligon.

Mr. REED. I guess actually it's Bill Simon.

Chairman HUMPHREY. We'll talk to both of these men.

Mr. REED. Our office has taken care of the procedure, details, scheduling and the setting aside of a room and getting people listed.

Chairman HUMPHREY. Mr. Simon is in charge of inviting the witnesses?

Mr. REED. No, sir, I guess he gives the final approval on who's invited.

Chairman HUMPHREY. Well, we'll see. Fine. Now, do you have anything further that you might say to make my people go home a little happier so they can enjoy the Sabbath?

Mr. REED. Let me make one remark here. I've already more or less intimated this, but the companies' adherence to this allocation program will be monitored and, if the voluntary compliance fails, more stringent measures may be taken by the administration. We are also going to hold public hearings on June 11 through 13 of this year to evaluate the operation of the program and to determine whether all or part of the program should be made mandatory. We hope and expect, however, that this will not be necessary. If it is necessary, we would not hesitate to take additional steps to assure that priority needs for oil are met. Senator, once again, it's 10 days till we have those hearings.

Chairman HUMPHREY. Thank you very much and we'll look forward to those hearings and Mr. Simon, your superior——

Mr. REED. Ligon.

Chairman HUMPHREY. I shall tell Mr. Ligon of your attendance and of your cooperation. Now, we've got a few extra public witnesses around here. I believe that we've already taken care of Mr. Nakken, is that right?

Mr. NAKKEN. Thank you very much.

Chairman HUMPHREY. You were very good and I'm sorry to hear the report, but you gave us some good information. You, sir, were Mr. Peterson?

STATEMENT OF DARYL PETERSON, INDEPENDENT SERVICE STATION OPERATOR, NORTH ST. PAUL, MINN.

Mr. PETERSON. Yes, I had a comment with respect to your question as to—you were wondering why the majors' profits have escalated to such a degree. I might enlighten you a little on that area from my limited knowledge.

Basically the biggest problem from what I have seen in the petroleum industry is the differential in price between the branded dealer as a leasee and the unbranded dealer as an independent. I myself am in the latter category. My buying price on gasoline, being my own transporter, was far below what the branded dealer's price was. I'm not saying this is right or wrong, but this is where the basic problem came in, and the major oil companies are now attempting to wash this out or, you know, remove it.

Now, the unbranded dealer's price—the highest I have ever paid for gasoline was about a quarter and I would buy as low as say 23 cents, in that range. OK. A major-brand dealer would pay around 29.5 or 30.5. In this he received the buildings for which he pays a half cent a gallon rent and so forth and so forth, but his gasoline is delivered and he receives the benefits of national advertising.

This is part of the business. But the basic difference was the price differential between my price and his price was far and away too large. Consequently you would have price wars all the time. So what the majors did to retaliate against this situation was to come in with what they call "price support."

If you would have a man and a corner and you wanted to put something in there to sell petroleum products for you, you say, "Well, here, this dealer tank-wagon is 30 cents a gallon. On this you have to pay a half a cent or 2 a gallon rent on the station," or whatever, you know, is determined by what they had to pay for the station, what is invested in it. Okay. And what it's worth to them, this is part of it. Now, when a gas war came along people would be selling gas for 27 cents a gallon.There's this poor guy sitting there as a branded dealer. He can't support his family. The major comes along and says, "All right. We're going to give you price support."

This is the way it has been. If you are going to take a station, your normal dealer tank-wagon price will be such and such a figure. Okay. If a price war comes in, Standard Oil usually says, "We can go down 25 percent with you down the line. We'll split the decline in the retail price of gasoline 25 percent down the line. We'll absorb part of the cost of fighting off your adversaries down the street." Okay. This is where the basic problem came in. The guy down the street and Standard Oil or any of the companies—Gulf or Texaco—would all come right down the line and support, and this was part of what Texaco told me. Initially 7 years ago or 7½ years ago I had a Texaco station. They said, "Your dealer tank-wagon price will be 30.5 cents and we'll give you a rental modification of half a cent." Normally it would be two cents if you are successful and are able to put food in your mouth. I would say, "Okay. But what happens if the guy down the street is selling for 27 cents?" "Then we'll come down and we'll stick with you. So if you have to give it away for a nickel, we'll only charge you a penny a gallon."

This is what they're trying to do—rub out the competition, and they're doing a tremendous job of it. Also they're drying up the surplus supplies, whether it be through rejecting trades of oil import tickets from various other companies like Triangle and Bell or otherwise. When they eliminated that, the dealer tank-wagon price went up. Stations can't start a gas war any more because they have no chance of price protection. Consequently they're moving into the difference between what they were selling their gasoline for, their supposedly surplus gasoline, to people like myself—the difference between that and what I was retailing for and what their man was retailing for, which constitutes anywhere from 3 or 4 cents in some areas to as high as 11, 12, or 14 cents in some other areas. They're moving into this gap. This is where the majors have suddenly blossomed. They have money coming out of their ears. They have a hard time trying to cover it up in the books. Really, a person should have such an undesirable fix! All the major oil companies are, especially in this area right now. There's no such thing as price protection right now. You don't compete.

I believe in free democracy and I believe the country was founded on it, but we're not playing it right now. We have a serious problem. Go in and try to start a station and compete fairly with major oil companies. Even if you took one of their own stations, they'll say to you your bathrooms are dirty, you didn't cut the grass; this is the problem. This is no free market right now.

You know, people used to complain about gas. The price was down and they would say, "Oh, God, there's always a gas war out there." I fell for the major's deal, and people don't believe that I ever sold gas for less than cost. I did it because I competed and I had a free and equal chance to compete; but I don't have that chance right now.

I voted for you, too.

Chairman HUMPHREY. Well, you have had some hard luck then. I understand what you are talking about.

Mr. PETERSON. This is the basic reason I'm here: to see if there's something that can be done to somewhat ease the petroleum situation so that people like me, who were in the business and have been totally eliminated, can survive. I foresee it being dark. What concerns me more than that is that the free enterprise will be rubbed out in the long run. The right to compete should be there.

There's a book around about this. I haven't had a chance to get a hold of it yet. I haven't been able to find out who to send to get it, but I will. I guess it had something to do with the Rockefeller people once upon a time. You probably would know more about it.

Chairman HUMPHREY. I think we'll go to Mr. Richards over here. Mr. Richards, you're sort of the daddy here of this group.

STATEMENT OF MYRON RICHARDS, PRESIDENT, RICHARDS OIL CO., SAVAGE, MINN.

Mr. RICHARDS. I'm president of the Richards Oil Co. I've been associated with this business for 30 years in Minnesota. I'm a third generation Minnesotan—118 years. My father served in the U.S. Weather Bureau for 60 years, so I'm an expert in weather, and I'm quite knowledgeable in the past 30 years in distributing half a billion gallons of oil to industries and institutions. There are a few items that—I think there are some things that I can present to you that are entirely novel and new that would be helpful to this hearing.

Chairman HUMPHREY. Now, you are speaking as an independent distributor?

Mr. RICHARDS. Yes, I am.

Chairman HUMPHREY. I think your firm is one of the older ones?

Mr. RICHARDS. I am the founder of the Richards Oil Co. at Savage. We have 8 million gallons of oil in storage and I want to thank Congressman Fraser for the help he gave us last fall. We are now the owners of our own towing organization; without his help and his letter of introduction to the Maritime Commission, we wouldn't be able to have this towing facility. It will enable us to bring 4 million gallons of oil up the river starting in September. We found that we've been able to keep priorities, but in some cases the refinery says, "Come and get it," and if you don't have the towing or transportation facilities, you don't have the oil. But the thing that I want to bring up here——

Chairman HUMPHREY. I'll make sure that our good friend the Congressman hears this. It's nice to get a compliment once in awhile. You appreciate it.

Mr. RICHARDS. Well, you mentioned conservation in Minnesota. We use approximately between 15 and 20 million gallons of cut-back asphalts for paving highways and streets in Minnesota. Cut-back asphalt contains anywhere from 10 to 40 percent distillates, which means naphtha for rapid cure asphalt, kerosene for medium cure asphalt and No. 2 fuel oil for slow cure asphalt. Thus we're pouring between 4 to 5 million gallons of these products on the roads and streets of Minnesota and because the State highway department requests it and the county engineers are using it. This is a total waste of a vital natural resource. In addition to that, it's air and water pollution.

Now, other States, the State of California and the State of Kansas, have abolished the use of these products and are using emulsified asphalt. Emulsified asphalt contains some harmless chemicals and it's 30 percent water. Now, we like to sell water. It's more profitable. We've got plenty of water in Minnesota and I think it is very possible for us to follow suit. Now, this year at the public letting at the State highway department, the price of emulsified asphalts was the same or less than that of cut-back asphalts. So, here's an opportunity for us to save 4 or 5 million gallons of vital resources of No. 1 and No. 2, naphtha and kerosene, especially during this busy agriculture season. That's No. 1.

Now, two, I've been very vitally concerned about fuel for winter. How much natural gas are we going to have available this winter and how cold is the winter going to be? I know that you've been around here a long time. Perhaps you remember the winter of 1936. You perhaps were at the university at the time.

Chairman HUMPHREY. I was in South Dakota.

Mr. RICHARDS. Okay. Well, I was at the university.

Chairman HUMPHREY. I was supposed to have been there.

Mr. RICHARDS. In 1936 we had 30 consecutive days below zero. The temperature never rose above zero. If we have a winter like that next winter, God help everyone in this room and God pitty us, because you'll be chopping ice out of the factories and the schools and the hospitals and the industries in Minnesota.

Now, let's get back to some other things here now that we've got government involved. Do you know that the Veterans hospital here has only 3 days of standby fuel supply? They use natural gas, but they only have 3 days' standby fuel supply. That's how our veterans are being protected from the ravages of winter with its 30, 40 or 50 below zero wind chill. Also we have the State capital with less than 10 days' fuel supplies. Here we have the IDS furnishing steam and heat to about 20 downtown Minneapolis buildings with only 15 to 20 days' supply. The Pick Nicollet, 3 days' supply. Now, the Federal Power Commission is regulating the natural gas distributors such as Minnesota Valley, Minnegasco and Northern States, and they had recommended 15 days' supply. Well, you need to realize that when these industries need fuels in bad times, they're going to take it away from someone, whether it's the trucking industry or the railroad. No. 2 and No. 1 fuel oil are quite similar to diesel fuel, so we're robbing some of the vital ones. Even the home users have only 15 to 30 days' supply.

Now, industry gets a break on natural gas. They've been buying natural gas for about half the price of the home user, and they have more oil storage. The natural gas distributors are recommending 30 days' supply. I think that the Federal Power Commission should set up some regulations with the natural gas people and insist that they either have 30 days' standby supply on their own premises or in bonded warehouse receipts somewhere else. Now, referring to storage, I heard you mention 1936. In 1936, fortunately, we were able to take care of Western Europe.

Chairman HUMPHREY. 1956?

Mr. RICHARDS. Yeah, 1956. We're no longer in that position to do that. Now, you know, what's happened? They've built tremendous storage capacities over in Europe to take care of this eventuality. Now, we have in this United States here, we've had Government grain storage. I feel that we need some Government oil storage here. I think the city of Minneapolis should go ahead and build 5 or 10 million gallons of storage and we should have fuels that are on standby reserve for civilian defense to see that we avoid a catastrophe because we lack fuel. You know, life isn't so simple that you can get along with a big barrel of corn cobs or wood in the back yard for your winter and we don't want to be burning corn cobs. This storage is a vital thing.

Now, I find out on this voluntary allocation system—we're short 6 million gallons right now. Continental Oil has failed to renew their contract with us. Well, that's one of your good friends there; I think you know the old Minnesotan, Bill Burnat. Now, I think a little whisper in his ear would be very helpful.

Chairman HUMPHREY. Why don't you send me one of those delayed postal notes. We'll get to you right afterwards. We'll get the name and business.

Mr. RICHARDS. But I feel that I think that we've got to restore this 5 percent cut in the depletion allowance for the oil companies. You've got to make this hazardous business of the local drilling industry profitable. I feel that the Federal Power Commission's got to take the handcuffs off the gas producers. We have an unrealistic and unfair selling price on that natural gas when gas in unregulated intrastate commerce can sell for 50 or 52 cents and here they're only allowed to charge 25 cents in interstate trade.

Also I think Mr. Sampson here had very good advice that we need to bring back the coal pile for the very largest consumers. You know, they kicked the coal pile out at Commonwealth 5 years ago, Southern Illinois Coal. Now they're using 400 million gallons of residual fuel to generate electricity. Now you want to realize that a ton of coal is worth 160 gallons of oil. The very large industries and powerplants here can use coal and they can mix it to lower the sulfur content. They can take the low-sulfur coal from Wyoming and Montana and mix it with the high-sulfur coals. Now, these things could be very helpful in solving some of our fuel problems. Not only that, but we have even a little surplus of asphalts here in this area, because we have three refineries in this area refining asphalts. They can very easily reduce that instead of exporting asphalt out of this territory which they are now doing. They can convert some of that into heavy fuel oil, and heavy fuel oil has 7 percent more heat value than No. 1 and No. 2. So, you can transfer that.

Back about 10 years ago we had over 200 schools in the State of Minnesota that were using No. 5 and 6 fuel oil. They've all gone to No. 2 fuel oil.

Chairman HUMPHREY. Is that because it's cleaner?

Mr. RICHARDS. Yes; that's right and because usually they have part-time engineers and they want to operate the school boiler plants with a part-time bus driver or a janitor, and some of them are as ineffectual as my wife in maintaining an oil burner. This is difficult.

Chairman HUMPHREY. Keep that out of the official record. I don't want you getting in any trouble there.

Your knowledge of this industry is really a very rich, a very rich one, and we welcome the observations that you are making here. They are very valuable ones. On this asphalt business, we're going to look into this and Mr. Erchul is back there listening. I'm so pleased that he is, because we really ought to look into that one.

Mr. RICHARDS. Also coke production; you know, we have one major refinery that processes 50,000 barrels of oil a day, our largest oil refinery. Coke's half of their bottom of the barrel. Now, I don't know exactly how officially that's being distributed or how effectively, but there is a potential alternate there. More industrial fuel oil could be made, which in turn could replace No. 2, which in turn could go to the users other than major industry and, well, now that's the difficulty. You take an industry like Waldorf Paper using 12 million gallons of fuels, 200 thousand gallons a day of heavy fuel, and they only have 2 days' storage. This is ridiculous with our 2-day weekends and our 4-day work weeks and all that, and this indirectly affects the total supply of product in this area. Thank you very much.

Chairman HUMPHREY. Well, Mr. Richards, I want to thank you. You are kind enough to come to me today and say you'd be willing to visit with us. You know an awful lot of the oil and fuel industry in this area and you can be very helpful to us. I think you've given us a couple of ideas that we ought to act on. I'm going to see that we follow through and, by the way, you heard from Mr. Reed today, and if you have any suggestions for the oil and gas office out of your experience, it would be very helpful.

Mr. RICHARDS. I certainly hope that this voluntary program works and, if it seems like it's faulty, I hope they can put the pressure more on the voluntary side. During World War II, I experienced the rationing program and I saw the inequities and the difficulties of managing it, and I certainly hope that we'll find a reasonable solution to our problem.

Chairman HUMPHREY. Thank you very much. Now, there was just one other. I think we had one other witness here and that's John Kjera. John, I just can't believe that that's a Polish name.

Mr. KJERA. That's a Polish name.

Chairman HUMPHREY. Born in Finland?

STATEMENT OF JOHN KJERA, PRESIDENT, LOCAL 662, OIL, CHEMICAL & ATOMIC WORKERS, PINE BEND, MINN.

Mr. KJERA. No; I'm half Irish too. Mr. Chairman, I'd like to thank you for the opportunity. My name is John Kjera and I'm the president of the local union that represents the employees that are currently on strike against the Koch refinery.

Chairman HUMPHREY. Your union again, for the record?

Mr. KJERA. Oil, Chemical, & Atomic Workers, Local 662. We've been on strike since the 9th of January and, incidentally, I don't want to bore you with the issues, but when the company took the action it did, the company spokesman acknowledged that we had no other choice than to go on strike. I'm not going into the issues, but I know Mr. Erchul's office has contacted the company and me and numerous other people trying to determine what the refinery currently is producing. The company maintains they're running full capacity. Now, our local also represents North Star Chemical who supplies them with the acid and reposes of spin acid in one of their processes. Knowing how much acid they're using and what they're reposing and what they're shipping by rail, by barge, by truck, and to some extent the pipeline, we think the refinery is running at two-thirds capacity. It has a little over 100,000 barrels a day capacity and there are 42 gallons in a barrel, so if they're running in the area of 70,000 you're talking a decrease of 1 to 1½ million gallons of petroleum products a day, although not all in this immediate area. They pipe some down to Wisconsin and some to Iowa. But that certainly has to be a substantial supply cutback.

Now, the negotiations have been on and we've resolved some of the problems. We've got some real big ones to go yet. But the conduct of the negotiations has been such that we feel that probably the bargaining table isn't really the solution to it; we think this strike is a part of the process of driving the independent dealer out of business and possibly the independent refinery. I think Midland Cooperatives could be a part of the total picture.

I think also that we've heard a lot of testimony from witnesses today that the oil producers are after a lot of economic advantages through the oil depletion allowance, through the importation of crude and finished products, and so on. With respect to imports, I would hope that, whatever decision is made, any finished products will be limited to supplying an immediate need and on the long-term basis the imports would be limited to crude oil. That has a bearing also on other problems, such as the balance of payments, unemployment, and the taxes paid both to Federal and local governments.

Chairman HUMPHREY. Isn't it a fact, I think, that the refineries in recent years have been built overseas rather than being built here at home.

Mr. KJERA. That's correct and that's another part of the problem. I think it's also significant in our negotiations, which have been going on since early December or late November, that the first significant progress was made after some of the independent gas station operators began to close up shop. It could be a coincidence; I don't know. But it certainly gives us something to think about. It was also very strange that in the middle of the fuel oil shortage during the wintertime that Koch's refiner had several million gallons of fuel oil stored in the terminal at the river near the campus of the university. They never started moving that oil out in any significant quantity till the fuel oil crisis started to rise.

Another thing that certainly has a bearing on the total problem—we certainly shouldn't lose sight of the environmental problems in refining and such. Now, we've had one employee of the refinery die of emphysema; that was a work-connected death. Also we have a member who was employed by the refinery on a long-term disability, and the doctor suspected it's from excessive exposure to sulfur dioxide levels that were too much over the years, but they can't really prove it. There are so many variables in it, but the doctors have significant reasons to suspect it. This is the problem. So, you've got two sides to the problems, but certainly we don't want to lose sight of the environmental.

In respect to the other witness that testified about posting the octane rating, I agree that it really isn't too significant. It's a step in the right direction, but I think the only practical solution to this problem would be to have realistic minimal requirements to meet in selling your gasoline. There are so many things: your vapor pressure, the gum content in your gasoline and other petroleum products. Incidentally, there are two or three different octane ratings and that's what Mobile tried to get at. I guess it was a megatane rating.

As far as the strike situation is concerned, we've had numerous meetings with the company and we tried various ways to get some movement under the company. We're going to continue to make any effort we can to bring about a quick and peaceful solution of the problem. It's a very serious one and we're well aware we're probably disrupting the community to some extent, including our members and families of members and also of the supervisors who are working in there.

Chairman HUMPHREY. Thank you very much. I'm pleased that we had a representative of the union here today. We like to keep these meetings balanced and I'm regretful that we didn't have one of the majors.

Mr. KJERA. I don't think they like to show up. Every place we show up they never come and I don't think they have a good story to tell. This is the only conclusion I can come to.

Chairman HUMPHREY. Thank you very much. Mr. Hillmann, you're the final witness I believe, and I've got to catch an airplane anyway.

STATEMENT OF ARNOLD HILLMANN, VICE PRESIDENT, UNITED VAN BUS DELIVERY, MINNEAPOLIS, MINN.

Mr. HILLMANN. Well, we'll make it brief. The table [1] which I just gave you is one that I've given to your staff member, Mr. Cox, earlier. My name is Arnold Hillmann. I'm vice president of United Van Bus Delivery, which is a company located here. It's home base is here in the Twin Cities. We are not members of the Minnesota Motor Transport Association which testified here earlier in that we're in a different type of business. We confine our business and operation primarily to the Minneapolis-St. Paul area. We have 200 trucks operating in this area, which is a significant number, and I think some of the effects that I'm going to speak about here will be of assistance to you and your staff.

[1] See table 1 at end of Mr. Hillmann's statement.

The gallonage chart that I submitted is really to indicate to you something of which you spoke this morning: the degree of uncertainty. You can see that our supplier with whom we contracted for 12 years changed his mind 10 times since last October.

Chairman HUMPHREY. Have you got another copy of that? Do you have an extra one there?

Mr. HILLMANN. Sure. He changed his mind 10 times since last October. Now, I am not here to make any critical suggestions with respect to our supplier because, as much as I can determine at this point in time, he's treating us on an equal basis with his other customers in competition with us. But I just wanted to demonstrate to you the uncertainty that we've gone through. As a side line to that, I think there are some economic impacts here in the community that have to be recognized and that could become nationwide.

From this gallonage availability chart I've shared with you, we find that we have 80 percent of our previous year's purchases. Now, in the meantime I've gone out and increased our business by 27 percent in the last 6 months, so a 20-percent reduction in fuel means I'm only going to have fuel for 53 percent of our present operations. As I said, I understand my supplier's part of my problem, because I feel he's treating me relatively fairly. Yet in this situation I have no incentive to go out and improve my business or to go out and be competitive in the marketplace, and business needs some incentive to keep growing.

We have recently hired several new employees. We went on a campaign specifically to hire Vietnam veterans and, if I have to lay off from the seniority list, I'm going to have to cut the Vietnam veterans off the bottom of the list. This will be a disappointment to these people. I don't know how to address myself to that problem except that I'm going to very actively seek other methods of securing fuels.

I've also attached for you a company table [1] which shows you what has happened to my fuel prices since last November. For what it's worth, you can review it. I can document it, should you desire. As a result of those increased costs, which reflect a 46-percent increase in the cost of gasoline since last October, this week I have imposed on my customers a 1.1-percent fuel surcharge which is listed at the bottom of their freight bill as a separate and distinct item. I want my customers to be aware of what the rate increase is for and that it's not an overall increase.

As we approach new suppliers or potential new suppliers, we haven't found them too warm at this point to talk to us. They're saying that, because of the controls, the voluntary controls that they've been asked to comply with, they really have nothing that they can share. They have to take care of their previous customers.

So, the dog is starting to chase its tail now. I told you about our problems. I have some suggestions here. I heartily concur with the gentleman from the Farmers Union, and I had the same thought in my notes prepared yesterday. Let's take a very careful look: does the National Guard or the Army Reserve really have to go to camp

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[1] See table 2 at end of Mr. Hillmann's statement.

this year and spend all that fuel and expense in getting there and in their exercises? Maybe the Air National Guard can fly every other weekend and still be as sharp. Maybe there should be some serious consideration to allowing immediately—I'm talking about some short term solutions now—to immediately allowing the over-the-road truckers to load their trucks 10 percent heavier than they are today. I understand that business, because I have been in the trucking business in some manner since 1948. Most States regulate the amount of tonnage you can put in. Now, you can't add to it in every truck, because a lot of them are full by virtue of cube already, but maybe you can add 10 percent or 5 percent to the load of half of them. That will take a few trucks off the road, but it's going to conserve some fuel. Also, take another very hard look at the ICC decision with respect to the gateway situation.

I'm leading up to a significant point here. With about 200 trucks running in the city like I have every day, we have one problem. I think the municipalities around the country should be encouraged to loosen up on their truck-route restrictions in the city. We can't take our trucks down even some very main arterial streets because they're restricted against truck traffic. With 200 trucks a day, if I can save 5 miles per truckI will save enough fuel to keep 76 automobiles on the road in the next year. Now, you know, small numbers really create big numbers here. One gallon per day per truck doesn't sound like a lot, but that's all I'm suggesting that I could save if I were allowed to use any streets that I wanted to bring my trucks home. But the compounding effects of what happens in small operations like mine what could be achieved by relaxing gateway operations and by some additional ways in interstate highway operations could make a tremendous amount of fuel available to the public.

I say that last matter only as an item for some provocative thinking. Maybe the Government ought to think of going into the refinery business itself. Maybe some of the majors would be a little shook up by that.

I pose three questions to which I'm not looking for answers, but merely trying to provoke thinking on the part of your committee. Now that I've been reduced to 80 percent of my previous years' purchases, I am not sure and haven't been able to find out where that other 20 percent is going. I don't mean specifically by customer. Nobody can satisfy me as to what the distribution of that 20 percent is, and I think this needs looking at. Second, are the price increases justified? We bought gas for the prices indicated on the chart for many, many years. I know that there was an Economic Stabilization Act that came into affect on August 15, 1971. I can't understand how the refinery companies have gone up 46 percent in that period of time. Lastly, let's take a very serious look at the environmental situation. I won't dwell on that; you recognize it; you've spoken of it.

I thank you for your time and your interest. I really would like to save a gallon per day per truck in this country. We can help a lot of people that way.

[The tables referred to in Mr. Hillmann's statement follow:]

TABLE 1.—GALLONAGE AVAILABILITY

	Gasoline	Diesel	Heating
October 1972	No known problems		
November 1972	No known problems (UVB requested contract renewal).		
December 1972	OK (Approximate Dec. 18 UVB advised "no contract renewal").	OK	0
January 1973	24,000; 1 mo. only	14,000	0
February 1973	16,000; 1 mo. only	21,000	0
March and April	48,000; 2 mo. only	35,000	0
Mar. 27, 1973	225,000; for 1973	250,000	0
May 2, 1973	193,000; for 1973	107,000	0
May 15, 1973 (approximate)	200,000; for 1973	73,000	0
May 24, 1973	200,000; for 1973	80,000	28,000

TABLE 2.—PRICE PATTERN

	Cost per gallon [1]	
	Gasoline	Diesel
November 1972	0.11500	0.11250
December 1972	.11500	.11250
January 1973	.12740	.11880
February 1973	.12740	.11880
March 1973	.15270	.14200
April 1973	.16790	.14200
May 1973	.16790	.14200
Increase (percent)	46	26

[1] Add 4 cents Federal tax and 7 cents State tax.

Chairman HUMPHREY. This is the way we get these suggestions, by going out in the field. Because no matter how good anybody is in any one office, there's a certain limit to his experience and imagination, and I think we've heard several good suggestions here today from the Minnesota Automobile Association, from you, sir, and from others that testified here. We want to thank you very, very much. The staff here has been taking notes of certain problem areas. Some of this will be transmitted hopefully into our analysis of pending legislation to see whether we can modify proposed laws in light of this experience and testimony. Some of this we will follow up with individual contacts with companies and with the officers of the Government. We hope that this session today has been meaningful to you as witnesses and as observers. I know it's been educational for me. I wanted to come here rather than asking you to come to Washington. It's cheaper that way, believe it or not, and I learned more.

Mr. HILLMAN. I was in Washington 2 weeks ago and I was afraid I was going to fall in a hole where they're putting in your new subway.

Chairman HUMPHREY. Not mine. Thank you very much.

UNIDENTIFIED VOICE. I think you overlooked someone.

Chairman HUMPHREY. Oh, yes, Mr. Erickson.

STATEMENT OF TOM HRON, VICE PRESIDENT, MINNESOTA AVIATION TRADES ASSOCIATION, ST. CLOUD, MINN.

Mr. HRON. Mr. Erickson had to leave because of a pressing business matter, so I'm going to speak for him. My name is Mr. Tom Hron from St. Cloud, Minn., and I'm vice president of the Minnesota Aviation Trade Association. Quite briefly, I represent about 100 Minnesota airports which are grouped together in this organization, and all of us are experiencing a problem with aviation fuel. Of course, with the shortage of fuel for the airports we're concerned with air transportation and such things as the air ambulance and agricultural operations. This time of year it's a big thing in the Midwest to keep our airplanes going for spraying operations; we just can't do it now. Of course, the fight concerns the veteran programs and what have you. This problem seems to be caused, of course, by the things that have been mentioned here today already.

We have specific examples of price increase. It isn't hard to prove a 10-percent abrupt increase in price to us. There is a lot of action by the major fuel companies to remove one rated fuel from the market; that is the 80-octane fuel used by a majority of light aircraft and agricultural airplanes. It's just simply being removed from the market. The situation is caused primarly by, it seems, Union 76, Gulf, and Sun Oil Co. and, of course, as you probably have already learned today, it's a little bit difficult to learn just why the shortage exists, why different companies are withdrawing from the market. We're concerned in this respect and we'd like to see some immediate action to prevent, of course, the hazards to safety, the unemployment caused by a loss of aviation, and the agricultural problems with spraying, which is a pretty big thing, especially in the western part of the State. Of course, you have a tremendous sum of Federal and State funds which are not going to be too well used if the airports go out, then you have serious economic hardships.

I guess briefly that the feeling by the association is that we reluctantly agree to some allocation program. We don't feel Federal participation in independent business of any sort is desirable, but in this case we feel that it's pretty necessary. Also such things as the elimination of the big car drain, the bombing.

Chairman HUMPHREY. First of all, your association represents how many airports?

Mr. HRON. Over 100.

Chairman HUMPHREY. How many of these airports have had problems of contract for fuel?

Mr. HRON. We felt today that we were kind of party crashing. We didn't hear anything whatsoever about this meeting or your coming to town. We picked it up through the grapevine and we just decided to put together what we had and come. We picked up what examples we could by the letters from different airports, such as Buffalo, Minn., which is out of fuel. I, myself, from St. Cloud, am on your record there as at that time having 1 month's fuel left; that was 2 weeks ago, so I'm in a different situation now.

I guess by now you know the feeling of the organization of airport operators. Just my own personal feeling, Senator, is that, while a lot of these fellows have been coming up here and saying they've been in business 30 years, I'd like to be in business 30 years, but it doesn't look like I'm ever going to make it. I don't know.

Chairman HUMPHREY. We want to keep this record open for additional papers, statements, and information. If your association, sir, despite the fact we did not get to inform you of this meeting—by the way, it's impossible to inform everybody—if you wish to submit any further material we would welcome it. The fact of your presence here is noted and I'm glad you are here, because we want to get a good cross section of the fuel users. You are one of the fuel users. So you feel free to forward your material to me or Senator Mondale. I'm chairing this subcommittee, so you forward it to me and I will get it into the record. You have mentioned St. Cloud and Buffalo. There may be other airports?

Mr. HRON. Holman.

Chairman HUMPHREY. Holman?

Mr. HRON. I have a number of letters. Other examples would be up in Cloquet, Brainerd; here we have one from Owatonna, one from Flying Cloud over in the western part of the State; and Buffalo. Then there's the gentleman behind me from St. Cloud which you have a record of.

Chairman HUMPHREY. If you give me those letters, I'll give them back to you. I'll get a xerox and send them back if you need them. I'd like to have them for the record. Then we'll insert those in the appendix to the record. Will you get those, Mr. Cox?

Mr. HRON. We'll have a letter drawn up and send them to you.

Chairman HUMPHREY. Do you want to do that? OK, have a letter drawn up and submit it all at the same time.

Mr. HRON. Yes.

Chairman HUMPHREY. Thank you. The subcommittee stands adjourned.

[Whereupon, at 5:30 p.m., the subcommittee adjourned, subject to the call of the Chair.]

APPENDIX

[From the Congressional Record, Feb. 15, 1973]

THE SWEEPING IMPACT OF THE ENERGY CRISIS

(By Alvin L. Hoffman, President, Construction Inspection Services, Inc., Silver Spring, Maryland, and Publisher of Construction Economics)

Some of the dimensions of the growing energy crisis in the United States began to appear in the headlines as the winter took a real grip on much of the nation. Homes and schools in scattered locations began to get colder, and many factories either shut down or curtailed their operations. But the real dimensions of the crisis are only dimly perceived by most citizens. The effect on all industries, on the nation's position in the world, and on its ability to protect itself economically and physically, has been voiced by only a few spokesmen. The average citizen, his furnace humming and car operating has not been significantly affected.

The effects, however, have become noticable in the construction industry. The most visible manifestation is that housing starts figures have dropped. A paucity of sewage treatment facilities and poor weather conditions have contributed to the decline, but so has a lack of natural gas in many metropolitan areas for heating, cooling, and cooking. Factory and industrial building is expected to drop in the coming year, also as a direct result of shortage of acceptable fuel for heating, cooling, and power.

In addition, a true energy crisis will affect highway construction, if highway travel is reduced because of higher prices of gasoline and diesel fuel. Dwindling supplies of asphalt could be a concomitant factor.

As a result of the "environmental" drive of the past few years, which is an integral part of the energy crisis, other areas of construction have been affected. Cost of petroleum-based machine parts and building components have risen; construction of thermal and nuclear-fueled powerplants has been at a virtual standstill; and other construction—including major housing developments—has been either delayed or halted.

On a larger scale there was cause for grave concern. It can be said that modern nations attain their international economic rankings in proportion to the energy that is available to drive their machines, manufacture their goods, and increase their peoples' standard of living. Ample supply of energy, it is now becoming clear, is one of the major keys to the growth and influence of the United States, and its position is being threatened.

It is ironic that this should be happening while the U.S. sits on some of the largest deposits of fossil fuels on earth and has been a leader in the development of peaceful uses of nuclear power. The vast deposits of coal, oilshales, and offshore oil and gas fields are estimated to contain enough fuel to supply energy for the nation for many hundreds of years, without dependence on any foreign sources.

The estimated 500-year reserve of coal has been rendered virtually unusable by a myriad of "environmental" considerations, including emissions, particulates, and other factors. The only hope is that some acceptable (and probably expensive) means will be found to convert the coal to gas. In addition, development of known oil reserves offshore and in Alaska has been stopped dead by conservationists' objections. Even nuclear power development has been halted by fear

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of "thermal pollution" through water used to cool generators and possible harmful emissions, plus difficulties of disposing of wastes.

But the mathematics of the shortage—though it involves astronomical figures—is simple enough: The United States now has "proven" oil reserves (areas where oil has been found and is producible) amounting to almost 30 billion barrels within the continental U.S., and perhaps another 10–15 billion barrels under the frozen waters of Alaska's North Slope. Moreover, gas reserves amount to about 252 trillion cubic feet. However, according to the petroleum-gas industry, very little has been added to these known reserves since about 1969 because of increases in exploration costs and other restrictions.

Meanwhile, Americans are consuming 16 million barrels of oil a day, and perhaps 23 trillion cubic feet of gas a year.[1] Moreover, this consumption is rising at the rate of 1 million barrels of oil every day, despite the claim of oilmen that existing wells are already producing at near capacity. Gas usage has been rising just as spectacularly. With this situation in mind, the U.S. government recently authorized substantial imports of liquid natural gas (LNG) to supplement the available supply, probably at considerable addition cost to the consumer. The enormous consumption is not solely in terms of heating. It includes power to turn electric-generating turbines; refinement of gasoline and other products; a vast petrochemical industry which depends on petroleum or natural gas as its basic feedstock; and highway construction, since asphalt is a by-product of gasoline and other refining processes.

The reasons are many and complex, aside from "environmental" restrictions. Oilmen are prone to blame government regulation—at both federal and state levels—for many of their ills, arguing that artificial holddowns of prices have forced them to absorb increasing costs to the point where exploration for new sources has become prohibitively costly.

It must also be noted that the energy industry has had a hand in compounding its own problems. Restrictions on foreign imports, for example, are the result of industry demand for government protection. Also, aggressive sales campaigns promoting the use of more and more appliances in homes, offices and factories have been extremely successful.

The only remedies that have been proffered are either conservation of energy use—through lowered heating-cooling levels, better insulation and construction, and curtailment of auto use—or further dependence on foreign governments for oil and oil products. Conservation will have a very gradual effect on the energy crisis, and will depend on broad and insistent education of the public, which must be willing to give up the optimum in comfort and convenience. The long transportation lines needed to bring in foreign oil pose their own dangers in terms of possible spillage, the need for "super ports" to handle larger tankers, and other factors.

The prospect of a boom in construction seems favorable indeed, if and when politicians are willing to face environmental restrictions and strike a sensible balance between the needs of humans and the needs of the environment. When such a breakthrough comes, there will be immediate need for construction work: new refineries, ports for super-tankers, pipelines and power plants. The question is, how much longer can we wait before the nation experiences an irreparable economic set back?

Prepared Statement of Hon. Charles A. Vanik, a U.S. Representative in Congress From the 22d Congressional District of the State of Ohio

Mr. Chairman and members of the Subcommittee on Consumer Economics of the Joint Economic Committee, I appreciate this opportunity to present my views on a vital factor of our energy dilemma—conservation—which has received all to little national attention. I see this failure as part of a wider pattern of under-representation of consumer interests in this "crisis" now before us.

[1] Rising annually.

In short, I am concerned that the energy crisis will become merely a pretext to gouge the consumer and provide windfall profits to the energy industry.

In the months ahead a gasoline shortage threatens to cripple the country. Gas rationing, while not yet begun, is certainly being contemplated by the Administration. For his part, the consumer has been manipulated into a situation over which he has little control. As gasoline prices accelerate and shortages become more widespread, the ordinary citizen will have little choice but to buckle under to the pressure.

The automobile has become an important American institution. Direct gasoline consumption by cars represents 13% of our total energy budget.

In 1970 more than 95% of urban passenger traffic and 85% of intercity traffic was carried by the automobile. The auto has become the major cause of the congestion which chokes our cities. At the same time it is responsible for almost one half of the emissions by weight which pollute our air. Between 1950 and 1970 automobile travel increased three-fold to 900 billion vehicle miles. During the same period per capita auto travel increased by 85%. And there is no indication to show these trends slowing in the future: Detroit is now predicting an output of 934,300 units for May, the largest monthly total in history.

Unfortunately, the auto industry should have seen long ago that the national interest would best be served by a cleaner safer, more efficient automobile. But the industry is slow to move without a stimulus. A case in point is the automakers' reluctance to assume responsibility for the pollution their product contributes to our air. On the well-publicized effort of the auto companies to meet the requirements of emission control in the Clean Air Act, the National Academy of Sciences commented,

. it is unfortunate that the automobile industry did not seriously undertake such a program on its own volition until it was subjected to governmental pressure. A relatively modest investment, over the past decade, in developmental programs related to emissions control could have precluded this crisis that now prevails in the industry and the nation.

Only now, as a response largely to foreign competition, the automakers are beginning to realize that economy in automaking is a marketable commodity. But the trend toward smaller cars began several years ago. In 1969, the V-8 engines were equipped in 88.8% of new car sales; in 1971 this figure dropped to 78.8%. Again, however, the industry has been painfully slow in responding adequately to national needs.

THE HIGH COST OF GASOLINE SHORTAGES TO THE CONSUMER

Mr. Chairman, if there is one safe prediction in our present crisis, it is this: the combination of gas-gulping automobiles and a shrinking supply of gasoline will combine in the months and years ahead to multiply the cost of running an automobile. To determine the magnitude of this increased cost, my staff and I have compiled a chart correlating fuel economy with gasoline prices. My calculations are based on the assumption that the average passenger car travels 10,000 miles each year. (Data compiled by the Motor Vehicles Manufacturers Association show this assumption to be accurate. An increase in that distance would tend to increase the difference between the low and high efficiency vehicle, while an annual distance of less than 10,000 would tend to narrow the difference.)

COST OF DRIVING A CAR FOR 1 YEAR (ASSUME 10,000 MILES)

Price per gallon	Miles per gallon													
	32	30	28	26	24	22	20	18	16	14	12	10	8	6
$0.37	$115.62	$123.32	$132.13	$142.30	$154.18	$168.17	$185	$205.57	$231.25	$264.37	$308.32	$370	$462.50	$616.68
$0.38	118.75	126.65	135.70	146.15	158.35	172.71	190	211.13	237.50	271.43	316.65	380	275.00	633.35
$0.39	121.88	129.99	139.27	149.99	162.51	177.26	195	216.68	243.75	278.58	324.99	390	487.50	650.01
$0.40	125.00	132.32	142.84	153.84	166.68	181.80	200	222.24	250.00	285.72	333.32	400	500.00	666.68
$0.41	128.13	136.65	146.41	157.67	170.85	186.35	205	227.80	256.25	292.86	341.65	410	512.50	683.35
$0.42	131.25	139.99	149.98	161.53	175.01	190.89	210	233.35	262.50	300.01	349.99	420	525.00	700.01
$0.43	134.38	143.32	153.55	165.30	179.18	195.44	215	238.71	268.75	307.15	358.32	430	537.50	716.62
$0.44	137.50	146.65	157.12	169.22	183.35	199.98	220	244.46	275.00	314.29	366.65	440	550.00	733.35
$0.45	140.63	149.99	160.70	173.07	187.52	204.53	225	250.02	281.25	321.44	374.99	450	562.50	750.02
$0.46	143.75	153.32	164.27	176.92	191.68	209.07	230	255.58	287.50	328.58	383.32	460	575.00	766.68
$0.50	156.25	166.65	178.55	192.30	208.35	227.25	250	277.80	312.50	357.15	416.65	500	625.00	833.35
$0.60	187.50	199.98	214.26	230.76	250.02	272.70	300	333.36	375.00	428.58	499.98	600	750.00	1,000.02

Some interesting conclusions can be made from this chart. In a choice between a large luxury car with a fuel economy of 8 miles per gallon and a smaller economy car, the difference in gasoline costs over the year can be considerable.

Annual fuel costs

Economy car—24 miles per gallon, regular gas at $.42/gallon	$175.01
Luxury car—8 miles per gallon, premium gas at $.44/gallon	$550.00

Assuming the same distance of ten thousand miles driven over the year the difference in cost to the owner is about $375. Over the life of the car—say, five years—the difference in fuel costs ranges to $1875. It is likely the costs will be even higher, however, because fuel costs themselves are almost certain to rise.

From the above table the consumer can calculate his fuel costs for the various choices he has before him. As fuel costs rise, the differences between the low efficiency automobile and the high efficiency automobile will grow. Taking the example above with a fuel cost for both cars of 60 cents a gallon, the difference between the two in annual fuel costs zooms to $500.

An entire range of factors—rising gasoline prices, spot shortages, an over-reliance on foreign production, a growing concern for the problems of pollution and congestion—have converged to make the large gas-consuming automobile extinct in its own time. Our nation simply cannot afford to keep on manufacturing cars which guzzle gasoline at a rate of under ten miles per gallon. We must recognize this fact, for the only person who really suffers from a gasoline shortage is the American consumer.

The American people must become aware of the vast costs involved—to himself, to his neighbors, to the entire nation— in buying an over-sized, inefficient automobile. I have introduced legislation which, I hope, will begin to move us in this direction. My bill will impose a Fuel Economy Excise Tax based on the fuel consumption characteristics of each new post-1976 model car, as measured by the Environmental Protection Agency.

There are three important features of the tax scheme I am proposing. The key factor in the tax is its timing. The initial rate structure will not go into effect until July 1, 1976, which will be in time for the 1977 model year. There will be ample time for automakers to assess the impact of this tax on their design, manufacturing, and marketing strategies. I want to stress that this tax is not intended to hammer-lock the industry. It instead provides an essential incentive to manufacture a more efficient automobile—for the benefit of the American consumer.

The second important characteristic of this proposal is that the excise tax is graduated. Those cars which are more inefficient pay more tax. Under this legislation an interim rate structure will be in effect for a period of five years. Any car with over 20 miles per gallon, as determined by the EPA, will be assessed no tax. After five years the tax schedule shifts to increase further the burden on the inefficient automobile. With the Committee's permission, I would like to submit a copy of this legislation with my statement.

A BILL To amend the Internal Revenue Code of 1954 to provide for a tax on every new automobile with respect to its fuel consumption rate, to provide for public disclosure of the fuel consumption rate of every new automobile, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) the Congress finds that——

(1) the Nation is facing a serious shortage of finished petroleum products, and a national policy of energy conservation is vital to reduce the wasteful use of irreplacebale fossil fuels;

(2) a shortage of domestic refinery capacity and a conflicting pattern of Federal policies have hampered the production of gasoline supplies and have made such supplies inadequate to meet the rapidly expanding national demand;

(3) passenger cars and other motor vehicles which use internal combustion engines are a major example of the inefficient consumption of gasoline; and

(4) the efficiency with which motor vehicles consume gasoline has declined 11 percent during the last twenty years.

(b) It is, therefore, the purpose of this Act to encourage the development and manufacture of automobiles which efficiently consume gasoline.

Sec. 2. (a) Part I of subchapter A of chapter 36 of the Internal Revenue Code of 1954 (relating to motor vehicle excise taxes) is amended by adding at the end thereof the following new section:

"SEC. 4064. AUTOMOBILE FUEL CONSUMPTION TAX

"(a) Imposition of Tax.—There is hereby imposed upon every new automobile manufactured, produced, or imported a tax at whichever of the following rates is applicable with respect to the fuel consumption rate (as determined under subsection (b)) of such automobile:

"(1) for the period beginning July 1, 1976, and ending June 30, 1981:

"If the consumption rate (in miles per gallon) is:	The tax is:
Over 20.0	$0.00
Over 19.0 but not over 20.0	1.00
Over 18.0 but not over 19.0	1.50
Over 17.0 but not over 18.0	2.00
Over 16.0 but not over 17.0	3.00
Over 15.5 but not over 16.0	4.00
Over 15.0 but not over 15.5	6.00
Over 14.5 but not over 15.0	8.00
Over 14.0 but not over 14.5	12.00
Over 13.5 but not over 14.0	16.00
Over 13.0 but not over 13.5	24.00
Over 12.5 but not over 13.0	32.00
Over 12.0 but not over 12.5	40.00
Over 11.5 but not over 12.0	48.00
Over 11.0 but not over 11.5	56.00
Over 10.5 but not over 11.0	64.00
Over 10.0 but not over 10.5	80.00
Over 9.5 but not over 10.0	96.00
Over 9.0 but not over 9.5	114.00
Over 8.5 but not over 9.0	128.00
Over 8.0 but not over 8.5	160.00
Over 7.5 but not over 8.0	192.00
Over 7.0 but not over 7.5	224.00
Not over 7.0	256.00

"(2) for the period beginning July 1, 1981:

"If the consumption rate (in miles per gallon) is:	The tax is:
Over 20.0	$0.00
Over 19.0 but not over 20.0	8.00
Over 18.0 but not over 19.0	12.00
Over 17.0 but not over 18.0	16.00
Over 16.0 but not over 17.0	24.00
Over 15.5 but not over 16.0	32.00
Over 15.0 but not over 15.5	40.00
Over 14.5 but not over 15.0	48.00
Over 14.0 but not over 14.5	56.00
Over 13.5 but not over 14.0	64.00
Over 13.0 but not over 13.5	80.00
Over 12.5 but not over 13.0	96.00
Over 12.0 but not over 12.5	114.00
Over 11.5 but not over 12.0	128.00
Over 11.0 but not over 11.5	160.00
Over 10.5 but not over 11.0	192.00
Over 10.0 but not over 10.5	224.00
Over 9.5 but not over 10.0	256.00
Over 9.0 but not over 9.5	320.00
Over 8.5 but not over 9.0	384.00
Over 8.0 but not over 8.5	448.00
Over 7.5 but not over 8.0	512.00
Over 7.0 but not over 7.5	640.00
Not over 7.0	768.00

"(b) *Determination of Fuel Consumption Rate.*—The fuel consumption rate of new automobiles taxable under subsection (a) shall be determined solely on the basis of the Automobile Fuel Consumption Schedule prepared by the Administrator of the Environmental Protection Agency.

"(c) Liability for Payment.—The tax imposed by this section shall be paid by the manufacturer, producer, or importer at such time and in such manner as the Secretary shall prescribe.

"(d) Definitions.—For the purposes of this section—

(1) the term "new automobile" means every gasoline-powered vehicle designed for use on the highway which has never been transferred to the ultimate purchaser, and

(2) the term "ultimate purchasers" means, with respect to any new automobile, the first person who in good faith purchases such automobile for purposes other than resale.

(b) The table of sections for such part I is amended by adding at the end thereof the following new item:

"SEC. 4064. AUTOMOBILE FUEL CONSUMPTION TAX

(c) The amendments made by this section shall take effect on July 1, 1976.

SEC. 3. (a) The Administrator of the Environmental Protection Agency shall, from time to time, study and investigate the fuel consumption rates of automobiles which are subject, or may be subject, to the tax imposed by section 4064 of the Internal Revenue Code of 1954 (relating to automobile fuel consumption taxes).

(b) The studies and investigations conducted under subsection (a) shall include tests—

(1) of each automobile model subject to such tax equipped—

(A) with each available engine sizes (measured by horsepower), and

(B) with each, and combinations of each, type of optional accessory available which is determined by the Administrator to have a significant effect on fuel consumption economy; and

(2) which shall be conducted—

(A) under driving conditions representative of an average composite of urban and nonurban driving speeds and circumstances,

(B) with the fuel used being of the quality normally recommended for use in such automobile, and

(C) with such automobile carrying the average weight load for which it was designed.

(c) Based upon the studies and investigations conducted under subsection (b), the Administrator shall determine the fuel consumption rate of each such automobile model with and without fuel consumption effective accessories and with each available engine size. The Administrator shall, not later than June 1, 1976, and each year thereafter, prepare and transmit to the Secretary of the Treasury a schedule of all such rates to be known as the Automobile Fuel Consumption Schedule (interim revisions of which are to be made by the Administrator as he deems appropriate). The Automobile Fuel Consumption Schedule shall be made available for sale as a public document.

SEC. 4. Section 3 of the Automobile Information Disclosure Act (15 U.S.C. 1232) is amended by inserting "(a)" after "Sec. 3." and by adding at the end thereof the following:

"(b) Every label required to be affixed under subsection (a) shall include, in the case of any automobile on which a tax was imposed by section 4064 of the Internal Revenue Code of 1954 (relating to automobile fuel economy taxes)—

"(1) the fuel consumption rate determined to be applicable for such automobile, and

"(2) the tax paid under such section 4064."

FUEL ECONOMY: WHAT IS IT:

Many factors have an impact on the rate at which an automobile consumes fuel. But EPA has found that the weight of the vehicle is the primary determinant of fuel consumption. Put quite simply, a five thousand pound car consumes twice as much gas as a vehicle half its weight.

However, there are other characteristics which effect the fuel economy of a vehicle. The most publicized has been the controversial emission control systems manufacturers have had to install in order to comply with the Clean Air Act of 1970. The EPA has found that these devices depress the full economy of the average car by only about 8 percent. I say "only" because, for example, air conditioning will decrease the efficiency of the automobile by about 9 percent. Automatic transmissions represent a fuel penalty of 5–6%. And according to Dr. David Rose of MIT, the use of radial tires may *increase* the fuel efficiency of the automobile by as much as 10% through the reduction of road friction. It appears that the impact of emission controls on fuel consumption has been distorted by the manufacturers.

There are also more subjective factors affecting fuel economy. A "hard" driver—one who accelerates quickly and drives above recommended limits—will consume more gas than a driver who is more careful. Vehicle design also contributes to the efficiency with which a vehicle consumes gas.

All these factors—vehicle weight, accessories, design, driving habits—must be considered in defining the fuel economy of a vehicle. Under my legislation, the Administrator of the EPA is instructed to establish a standard procedure for testing fuel economy. Important work in this direction has already been done by the Society of Automotive Engineers, and it should be no problem to devise such a procedure.

With a standard procedure in hand, the EPA will test each manufacturer's proposed line of vehicles for the coming model year. The EPA will rate each vehicle and include in its calculations the following factors: the weight of the vehicle with a standard load, the impact of accessories such as air conditioning and automatic transmission, the recommended gasoline and the difference in an urban and a highway driving cycle. Once the testing procedure is completed, the EPA will compile the results, and it will be on this basis that the Secretary of the Treasury will impose the excise tax. In addition, the EPA's report will be made available to consumers through the Government Printing Office.

Smaller cars have been popular in Europe for many years. This popularity does not grow from European fascination with the small car. Rather, there are in Europe serious restraints to the large car: the highways are neither as wide nor as well designed as our super highway system; fuel costs are high—as ours will soon become— and there is usually a heavy tax imposed on the weight of the vehicle. In short, Europeans have very pragmatic reasons for buying smaller, more efficient automobiles.

GASOLINE SHORTAGES AND NEW POLICY DIRECTIONS

Mr. Chairman, I am disappointed with the Administration's approach to our impending gasoline shortage. Mr. Darrell Trent, Acting Director of the Office of Emergency Preparedness has warned, "Inadequate supplies of gasoline could cause local shortages this spring and summer." Indeed, these shortages have already begun; independent marketers who rely on the major integrated companies for their supply of gasoline are being forced to close down some of their outlets and curtail operations in others.

It appears to me that the Administration's resort to "voluntarism" in energy conservation is merely an excuse for inaction. Congrestion, pollution, and petroleum shortages have combined to create a transportation crisis in this country. Any meaningful solution to this crisis must deal with two critical issues. First, we must begin to reverse the trend to bigger, more powerful, and more inefficient automobiles. If urban automobiles carried an average of two passengers rather than 1.4 and obtained 20 mpg, rather than the average of 11.4, a total of 25 billion gallons of gasoline would have been saved in 1970, the equivalent of 59% of the urban passenger transportation budget. Secondly, we must begin to consider seriously plans to move people by means more efficient than the automobile. For example, if 40% of the 1970 urban auto traffic had been carried by mass transit and an additional 10% by bicycle 13 billion gallons of gasoline would be saved, a 31% reduction in urban passenger transportation energy consumption.

Mr. Chairman, the gasoline shortages this summer will be followed almost certainly by fuel shortages next winter. We are now facing the harsh truth behind the mismanagement of our energy resources. Our nation can no longer afford to drift carelessly along with a tattered patchwork of energy policies. We must begin to assess our *real* needs for energy and balance them against our capability of providing energy without unreasonable risks to our environment. We must not be confused—the public trust does not lie with the interests of the major oil companies or the big four automakers. We risk falling once again into the mentality that what is good for GM—or Exxon or Ford or Mobil—is good for the country. History has taught us that the public welfare demands more. We must not allow our energy shortages to become a pretext to manipulate the vital interests of the American consumer.

Q. A GASOLINE SHORTAGE?

A. YES, SAD BUT TRUE.

Q. Is it critical?

A. Not yet, but it can become so. Certainly it's serious. What seems likeliest is occassional shortages. It all depends on just how much demand increases.

Q. Can I get all the gasoline I need this summer?

A. Probably. But service stations here and there may run for a few hours now and then, and some may operate on shorter hours. Unlikely, though, that all stations in a neighborhood will run out at the same time for very long.

Q. Crazy. How'd this happen?

A. Crazy's right. Not enough crude oil available, and not enough refining capacity in this country to meet demand. Gasoline consumption is rising much faster than anyone anticipated a couple of years ago—partly because of pollution-control devices new cars, partly because more cars are equipped with air-conditioners, and other power take-off devices.

Q. Why haven't oil companies built more refineries here?

A. Mainly environmental and financial constraints. While the vast majority of consumers are unaware of it, legislation and litigation arising from exaggerated environmental fears have effectively prevented oil companies from obtaining satisfactory sites for new refineries. And the whole sale prices we get for gasoline and other products do not recover the increased cost of building refineries.

Q. What does one cost?

A. Over a quarter of a billion—that's 250 million—dollars for a 160,000-barrel-a-day refinery now. This is about the minimum economic size. But by the time you could get a new one built, starting from scratch today, it would cost a lot more.

Q. How many new refineries does the U.S. need?

A. An average of four or five new 160,000-barrels-a-day refineries in each of the next seven years, at least.

Q. How many of this size under construction now?

A. None.

Q. How's that again?

A. None.

Q. How long does it take to build a new one?

A. If you started today, at least three years for a 160,000-barrel-a-day plant.

Q. Will building more refineries in the U.S. solve the problem?

A. Not entirely. U.S. crude oil production is declining. Many U.S. refineries can't get all the crude oil they could refine now.

Q. How come we aren't producing more crude oil?

A. The "lower 48" states are the most heavily explored region in the world, and we're using more oil than we can find here. Almost all of the older fields are now at maximum production, with the industry producing every barrel it can. And for environmental and other reasons, oil companies haven't been able to obtain access to oil discovered on the North Slope of Alaska or to the unexplored areas off the East and West Coasts.

Q. Can't we obtain all the foreign crude oil we need?

A. No. Supplies are tight everywhere. Most overseas producing areas are at maximum producing levels, and some of the world's major producing countries have actually curtailed their crude oil production.

Q. Why not import more gasoline?

A. Same reason. Some gasoline *is* being imported. But supplies overseas are very tight, because of high demand and tight crude oil supplies. The U.S. has to compete with other countries for these tight supplies.

Q. Can't we all use gasoline more efficiently?

A. Certainly. The improved public transportation Mobil has been urging could save some gasoline. So would good driving habits and a well-tuned engine—things we've promoted for years. But all this would have little *immediate* impact. Even with the best conservation, consumption is going to increase.

Q. Any way out of all this?

A. Sure. Use all energy more efficiently. Control automotive emissions in a way that won't waste so much gasoline. Build the Alaskan pipeline. Deregulate the price of at least new supplies of natural gas. Explore offshore. Permit the financial incentives to build more refineries—where they're needed. Go all-out in research and development on coal and oil shale and nuclear power, to make these energy sources economic and environmentally safe.

Q. This risky?

A. Riskier *not* to. What we have to do is develop socially and economically acceptable balances. There is no automatic conflict between a cleaner environment and greater supplies of energy. The most unacceptable risk of all is to fail to develop adequate and secure supplies of energy so America can continue to prosper.

NATIONAL OIL JOBBERS COUNCIL,
Washington, D.C., May 4, 1973.

Hon. HUBERT H. HUMPHREY,
Chairman, Subcommittee on Consumer Economics of the Joint Economic Committee, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Thank you for allowing me to file this statement before the Subcommittee on Consumer Economics on behalf of the National Oil Jobbers Council.

The National Oil Jobbers Council is a federation of 38 state and regional associations, covering 46 states, of oil jobbers in the business of marketing motor fuels, heating oils and boiler fuels at wholesale and retail. NOJC thus represents 13,000 marketers of petroleum products; they sell roughly 25% of all the automotive gasoline and three-quarters of all the heating oil consumed in the nation.

The National Oil Jobbers Council exists to preserve the private enterprise risk-reward system; to prevent undue economic concentration; to insure a favorable competitive climate in petroleum distribution and to encourage adequate supply of petroleum products; all to the end of best serving the ultimate consumer. This is the official statement of our purpose, as adopted by NOJC's Board of Directors. We note, Mr. Chairman, that our purpose coincides with that of your Subcommittee.

At the present time, this purpose is undergoing heavy attack from a severe shortage of gasoline, diesel fuel and heating oil products in every section of the country. Almost every one of our members is either cut off, severely cut back, or on heavy restriction called allocation. Yet, while they are restricting supply to our members, several major oil companies in many areas of the country, Nebraska for example and New England, are opening new retail outlets they themselves own, such as combination car washes and gasoline stations. Further, a number of major oil companies have raised the price of their gasoline to jobbers while keeping the price at the pumps of their own gasoline stations even, thus squeezing the jobbers' working margin.

Under these conditions, the competition in both service and price which the jobbers traditionally offered the major oil companies and each other is about to fade away. Yet, it was this inter-company competition in the marketplace which was the surest source of benefits to the consumer. If indeed there is or will be a physical shortage of petroleum products in every region of the country, despite the pieces of evidence in some regions indicating otherwise, this shortage should be shared equitably; that is, in such a way that the elements on which the competition in the marketplace has been founded may continue to exist through this parlous time until a time of plenty allowing full competitiveness arrives once more. We thus favor your suggestion, Mr. Chairman, for the establishment of a board to allocate petroleum products among all the elements of competition.

The best insurance that such a board will stay true to its course, when battered by all the cross-winds which its task of equitable apportionment will inevitably bring upon it, is to have as members at least a representative of consumers, of state and local government, and of the nations jobbers. Likewise, the staff of such a board should have similar representation among its highest ranking members.

Thank you again, Mr. Chairman, for allowing me to present this statement. I call your attention to the attached letter from your constituents, the Northwest Petroleum Association, regarding their views on your fine suggestion and that it too be made part of the record of these hearings.

Sincerely,

GREGG POTVIN,
Executive Vice President.

Enclosure.

NORTHWEST PETROLEUM ASSOCIATION,
Minneapolis, Minn., May 1, 1973.

Hon. HUBERT H. HUMPHREY,
U.S. Senate,
Washington, D.C.

DEAR SENATOR HUMPHREY: We are deeply concerned that the small independent oilman (both branded and unbranded) be given input into any program aimed at product allocation.

All jobbers must be given the opportunity to receive equal treatment and the right to compete on an equal basis.

Advantages such as exemption of agricultural cooperatives over another businessman competing with the same products for the same customers must be avoided.

Advantageous positioning of major oil company influence on such an allocation board is a distinct threat. Safeguards must be built in to protect the small businessman.

Our spokesman in Washington is Mr. Gregg Potvin of the National Oil Jobbers Council. Please allow him the opportunity of presenting our views and beliefs.

It is our desire to send representation from Minnesota on behalf of our members when you feel the time is appropriate.

We are very appreciative of your great efforts to help us survive—both now and in the past.

Best personal regards.

JERRY W. EVERETT,
Executive Director.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., May 10, 1973.

Mr. WILLIAM COX,
Subcommittee on Consumers Economics,
Joint Committee on Economics,
G–133, NSBO.

DEAR MR. COX: Attached is a statement of the Allen Oil Company of Union, New Jersey, which I would appreciate your making a part of the testimony of the hearings concluded by the subcommittee on May 3rd on the critical gasoline situation.

Thank you.

Sincerely,

ROBERT A. ROE,
Member of Congress.

STATEMENT OF THE ALLEN OIL COMPANY, 2115 RT. #22W, UNION, NEW JERSEY

Allen Oil Company is primarily an independent wholesaler and retailer of gasoline with its marketing area in northern and central New Jersey. Gasoline sales comprise approximately 90 percent of our sales in terms of dollar volume. Some revenue is derived from sales of diesel oil and fuel oil and from the operation of three car washes. Approximately 70 percent of gasoline sales are at the retail level; the remainder are at wholesale. Allen Oil Company owns or leases 22 branded Mobil stations and 10 unbranded Save stations. An additional 20 stations owned by small independent retailers are also supplied by our company.

Sales of gasoline by Allen Oil during 1972 amounted to approximately 20 million gallons. However, the number of branded Mobil stations owned or leased by our company increased during 1972 and gasoline sales were expected to reach 26 million gallons during 1973.

Allen Oil Company's primary gasoline suppliers are Mobil, Tenneco and Crown Central. These companies supplied most of the 6.8 million gallons of gasoline purchased by our company through March 31, 1973. Effective April 15, 1973 Crown no longer supplied gasoline to our company. Tenneco has allocated Allen Oil to 68 percent for the month of April 1973 and 70% for May 1973. Mobil, Allen Oil Company's largest supplier, cut off our company completely at the end of March 1973. Following this action by Mobil, Allen Oil Company received temporary relief through a court injunction which requires Mobil to furnish all gasoline needs until a final disposition is heard by the court.

With these reductions by its major suppliers, less than 2.8 million gallons of gasoline will be available to Allen Oil through the remainder of 1973. Accordingly, Allen Oil Company will be 17.2 million gallons below its 1973 requirements.

Allen Oil Company has contacted every reasonable source of gasoline: major suppliers, independent wholesalers and brokers. No additional product can be found. Unless some relief is granted by rationing or availability or reasonably priced product Allen Oil Company will be unable to maintain its wholesale operation and will be forced to close its retail outlets.

On April 11, 1973 our company received an import quota of 109,500 barrels of gasoline, or 4,600,000 gallons, for 1973. Although "tickets" were received, the price of product available from Canada or overseas is prohibitive. Our latest quote on May 3, 1973 was 25.6¢ per gallon for regular gasoline delivered into the New York harbor. After adding the tax and thruput and financing charges, this product would cost our company approximately forty (40) cents per gallon. It is impossible to comprehend that our company can pay this price and compete with "major brand" stations that are retailing at prices of 32.9¢ to 36.9¢ per gallon for regular grade gasoline.

As a matter of comparison our company sold 3,350,000 gallons of gasoline in March 1973. During April 1973 our gallonage sales dropped to 1,300,000 gallons. This reduction of 2,000,000 gallons resulted in decreased sales of 250,000 gallons on our Mobil service stations; 153,000 gallons on our private brand owned stations and 1,600,000 gallons on our "wholesale" supply.

Additionally, three service stations were closed and the balance of our private brand stations were put on a twelve (12) hour day, six day a week basis with one man on a shift. Since April 1, 1973, including all service stations under our control, we have curtailed employment of approximately twenty five (25) men with the possibility of more layoffs in the immediate future.

CENTRAL AUTO ELECTRIC CO., INC.,
Minneapolis, Minn., May 14, 1973.

Hon. HUBERT H. HUMPHREY,

DEAR SIR: We have been 41 years in the gas business for Standard Oil Co. Wouldn't you say that's loyalty?

On May 1, 1973, we were informed by registered letter that our lease was canceled as of May 31, 1973.

We have been in Northeast Minneapolis doing business since 1932! 29 years at 1800 Central ave. NE. and 12 years at 1227 Central ave. NE. running a repair garage and filling station

Having just secured an SBA loan in January 1973 we are most concerned how we will make our payments as the filling station is ⅓ of our income here.

Our thoughts were to have a trainee program for repair work on cars and trucks.

Is this really the end of the small business man? Everywhere we go, small shops of all kinds are closing. Maybe we will all have to work for big business in order to have the right to work.

Give our regards to Mrs. Humphrey, love you both.

Mr. and Mrs. BURTON H. SCHUVEN.

CITY OF ST. CLOUD,
St. Cloud, Minn., May 10, 1973.

Mr. MILTON C. BOERGER,
B & B Oil Co.,
St. Cloud, Minn.

DEAR MR. BOERGER: As Mayor of the City of St. Cloud, I hereby formally request your immediate attention and assistance in providing aviation fuel for the St. Cloud Municipal Airport.

Since you are undoubtedly aware of the growing need for energy and energy conservation, I need not tell you of all of the details which have preceded this request. The St. Cloud Municipal Airport is a new, ultra-modern facility destined to grow as the city and the surrounding area grows. Projections call for a 46% increase in area population by 1985. Similarly, industrial and commercial development can and will continue in the St. Cloud area during the next decade. Already a significant number of large corporations are expanding and developing in vital outstate growth centers, and St. Cloud is leading in this regard.

Presently the St. Cloud Municipal Airport is involved with a wide variety of transportation services to the area. These include charter flying and training for the general public, flight stopover service for corporations, the military and government officials, and an extensive program of flight training for St. Cloud State College.

Aircraft, like other modes of transportation, need fuel to operate. The following indicates the fuel consumption at the St. Cloud Municipal Airport for last year and the current year:

[In gallons]

	1972	1973 (through April)
80 octane	64,521	19,544
100 octane	51,490	11,100
JP-4 jet fuel	24,659	8,516

The figures indicate a projected demand for 1973 of approximately 120,000 gallons of non-jet fuel. The jet fuel (JP4) demand generates principally from service to the U.S. Army and the National Guard. The remainder of the jet fuel is consumed by large charters used by a growing number of area corporations and local enterprises.

The operator of the St. Cloud Municipal Airport, Mr. Thomas Hron, is fully cognizant of the need to conserve on fuel and has taken pains to encourage and limit flying to business purposes only. A prime consideration is being given to flying several concerns in lieu of traveling by automobile. As the St. Cloud industrial and commercial base grows and as highways become more crowded, one is sure to see an even greater reliance on flying as opposed to the use of automobile.

When one looks at the total investment already made by the Federal, State, and Local governments as well as the private enterprises involved, one can readily see the concern I have that we have adequate fuel at the airport. The City of St. Cloud has assumed bonded indebtedness of some $990,000 to help construct the airport. The Federal government has invested in excess of $388,000 in grants and just recently the State of Minnesota, recognizing the growth and need for the St. Cloud Municipal Airport, entered into agreement to install a runway approach lighting system at the airport.

I mention these items to point out the deep commitment made to aviation in the St. Cloud area. In addition, St. Cloud Aviation, a private concern located at the airport, had gross sales of $351,500 last year. This represents employment for 10 full-time residents and a significant contribution to our local economy. St. Cloud Aviation has property assets at the airport of $158,000—another example of deep involvement in aviation.

In summary, then, we need to have a viable airport, hence, we need an adequate supply of fuel. St. Cloud is a city on the move and, as such, cannot be abandoned nor closed off from air travel. Industry, government, and education require a mixed-modal system of transportation. Indeed our economy demands it. I pledge that I will do everything to maintain that system and ask that you convey my personal concern to your suppliers that St. Cloud be provided adequate aviation fuel.

Sincerely,

ALCUIN G. LOEHR, *Mayor.*

Senator HUBERT HUMPHREY,
Capitol Hill, D.C.:

Request your attention to the shortage of aviation gasoline to support the college flying training aviation education program. The local aviation St Cloud Aviation Inc. indicates 1 more week of flying before on hand fuel expended. No further shipments are available from Consolidated Oil Co., Smith Distributing Co. and B. & B. Oil Co. Our flying training request 2,500 gallons per month.

CLAIRE WESLEY,
Faculty Advisor State College Arrow Club.

THE HOLES-WEBWAY CO.,
St. Cloud, Minn., April 19, 1973.

Senator HUBERT HUMPHREY,
Senate Office Building,
Washington, D.C.

DEAR SENATOR HUMPHREY: While I know that you will have heard from many others on this subject, I wish to lend my note of concern for the fact that St. Cloud citizens are going to have a great deal of difficulty obtaining oil next year to heat our homes and businesses.

Frankly, I don't have any more answers to this problem than does anybody else, but I do want you to know that there is very little that is more important to the people of this area than this problem.

As I said, I just wanted you to know my concern.

Sincerely yours,

WILLIAM W. HOLES,
President.

STATE OF MINNESOTA,
HOUSE OF REPRESENTATIVES,
May 18, 1973.

Hon. HUBERT H. HUMPHREY,
U.S. Senate, Old Senate Office Building,
Washington, D.C.

DEAR SENATOR HUMPHREY: I appreciate your concern and interest over the present energy crisis facing our country. Several of my constituents have expressed their concern to me over this matter and, in particular, the shortage of fuel and gasoline and the rising prices for these products.

I am enclosing herewith a copy of a letter which I have received from Mr. Miff Larson of the Consumer Oil Company in Willmar, showing what has happened to his business in recent months. In addition to the rising gasoline prices, Mr. Larson has also been informed that his franchise will be terminated by his distributor in the near future unless a new source of supply is discovered.

With best wishes, I remain,

Very truly yours,

JOHN C. LINDSTROM,
State Representative.

CONSUMER OIL COMPANY,
Willmar, Minn.

JOHN LINDSTROM: The following are the prices of gasoline from Pine Bend and fuel oil from the Marshall Pipelines:

Gas

January 16, 1973	14.353
February 1, 1973	14.400
February 10, 1973	15.000
March 24, 1973	15.750
April 21, 1973	17.750

Fuel Oil No. 2

January 16, 1973	11.230
January 17, 1973	13.210
February 10, 1973	13.600
March 24, 1973	14.350
April 24, 1973	16.350
May 1, 1973	17.100

You can see that from the present time compared to prices as of the first of the year we have gone up to 3.397 per gallon on gas and 5.700 on No. 2 fuel oil.

To these prices the freight must be added, which is 1.483 on gas from Pine Bend—1.365 freight on fuel oil from Marshall, so that gives us a total price of 19.233 on gas laid in here and 18.465 total price on fuel compared to a laid in buying price of Phillips on gas 15.450—3.783 less than Sinclair—fuel oil 13.190—5.275 less than Sinclair. Texaco has a laid in price of 13.740 on fuel oil—4.725 less than Sinclair so you can see the inequalities of the pricing.

Then to add to our problems, my Distributor Contract has been cancelled as of June 30th, 1973 and will be issued on a month to month basis. Also attached is a copy of a bulletin I received from the Omaha office which added a problem of looking around for another supplier after next April 30, 1974.

MIFF LARSON.

LUVERNE OIL COMPANY,
Luverne, Minn., May 18, 1973.

Hon. HUBERT H. HUMPHREY,
U.S. Senate,
Senate Office Building,
Washington, D.C.

DEAR SENATOR HUMPHREY: It is with great pleasure that I am writing to thank you for all your efforts and the success received thus far pertaining to the gasoline shortage.

Our family has been in the distributing business of gasoline, fuels of all nature, lubricants, tires and accessories since 1917. Our family started the first bulk plant in this city and county. We have been with D-X and Firestone since 1925 and have served this area with their products. I certainly have great appreciation for your concern in this business as the farmers must be supplied with petroleum products when needed if our United States is to play the important role of feeding the hungry world.

I saw you for just a moment yesterday at the Radisson South as you were registering for the Mortgage Guaranty Insurance Corporation meeting and would have liked to have found you to thank you and present my story to you verbally, but was unsuccessful as you were gone far too quickly.

In closing, I want you to know without any doubt that we are thankful to have the concern of a Senator like Hubert Humphrey and we may need continuing help from you.

Sincerely yours,

RAYMOND R. FRICK,
Owner.

P.S.—Mr. Vernon Cornish, manager of Luverne Oil Company, also wishes to send and convey his sincere appreciation for your efforts.

VERNON CORNISH.

SUN. OIL CO.,
Philadelphia, Pa., May 15, 1973.

Hon. HUBERT H. HUMPHREY,
U.S. Senate,
Washington, D.C.

DEAR SENATOR HUMPHREY: Please accept my apologies for not replying sooner to your letter of May 1 regarding Mr. Harlan Waldner, our bulk agent in Huron, S.D. I have been out of the office for ten days and did not return until today.

Two things happened last week that affected our supply arrangements with Mr. Waldner. First, on May 9, Sun Oil Company announced that it would continue to supply its customers in our "divestment area" through the coming winter. Mr. Waldner is included in this area. We did this because of the difficulty these people have been having in finding new suppliers. We noted that we would be allocating our supplies to this area, as we are throughout our 34-state marketing territory.

Second, on the following day, May 10, the Administration announced its program for allocation of petroleum products and crude oil. We immediately sent a telegram to Mr. William Simon, who had made the announcement, stating that we supported the program and were taking immediate steps to comply with it.

We are now studying this federal allocation program in detail. There are many points that need clarification, and an implementation plan for it is urgently needed.

These two announcements—one by Sun, the other by the Administration—have insured that Mr. Waldner will continue to receive petroleum products on a temporary allocation basis from Sun Oil Company. However, this does not mean we have changed our intention of terminating our supply contracts in our stated divestment area after the supply crunch has passed and government allocation is lifted. Our original withdrawal decision was made because this market was not profitable for us. We decided to voluntarily continue supply only because our customers could not find new sources of supply. The government program followed this decision, and we will of course comply with it.

Please call on me if I can be of any further help.

Very truly yours,

T. A. BURTIS.

MIDLAND COOPERATIVES, INC.,
May 25, 1973.

Hon. HUBERT H. HUMPHREY,
U.S. Senate,
Washington, D.C.

DEAR SENATOR HUMPHREY: First of all, on behalf of the agricultural members of our organization, I want to express appreciation for your efforts in obtaining additional quantities of diesel fuel from the Gulf Oil Company. Mr. Erchul, Director of the Department of Civil Defense of the State of Minnesota, has worked with us in distributing this vitally needed product. We are presently in the process of arranging for its distribution.

On May 10, Mr. William E. Simon announced a voluntary allocation program for all kinds of petroleum products. He also set up a list of priority uses. Both of these actions gave us hope that a more equitable system of distribution of scarce petroleum products would be effected. Unfortunately to date, while some of the major oil companies have given lip service to the program, we have seen very little or no evidence that they intend to cooperate in the implementation of it. We have sent the following telegram to our historic suppliers of crude oil for our refinery at Cushing, Oklahoma:

"In accordance with the Voluntary Allocation Program announced May 10th we request a statement from ——— on the amount of crude oil we may expect to receive. Our records indicate during the base period of October 1, 1971 through September 30, 1972, you supplied Midland ——— barrels or an average of ——— BPD. We are in short supply of crude oil and will be forced to shut our refinery down in early June. We will appreciate receiving a reply on our requests as soon as possible."

This telegram was sent to the following companies: Kerr-McGee Corporation, Oklahoma City, Okla.; Sun Oil Company, Philadelphia, Pa.; Mobil Oil Corporation, Dallas, Texas; and Continental Oil Company, Houston, Texas.

To date there has been no response in the way of "wet barrels" in the Cushing refinery. We have been getting considerable conversation but no indication that these companies will honor the program.

Earlier this Spring the Department of Interior announced that Federal Government Royalty oil would be made available to small interior refineries. We filed an application on March 15, 1973, for our proportionate share of 11,400 barrels a day with the Department of Interior. There has been one delay after another as far as positive action on this award is concerned. We would appreciate it if you would contact Mr. Stephen Wakefield, Undersecretary, Department of Interior, to encourage him to take action on this application. We know that he is under much pressure but, by the same token, if our refinery is forced to close because of a lack of crude oil, we will be unable to furnish our members with their petroleum product needs this Summer and Fall.

We appreciate the many efforts you have made in our behalf. We hope the situation will soon materialize in such a way that we will not have to call upon you so often.

Sincerely,

SIGVED SAMPSON,
President and General Manager.

ATLANTA, GA., *May 8, 1973.*

Hon. HUBERT H. HUMPHREY,
U.S. Senate,
Washington, D.C.

DEAR SENATOR HUMPHREY: The purpose of this letter and accompanying statement is to focus Congressional attention upon the serious *anticompetitive* situation that has developed in the gasoline industry. One of the most important competitive elements in that industry is about to be destroyed.

During the last six months, several independent discount gasoline marketers have been forced out of business. Many more find their existence in jeopardy. If conditions remain as they are, the major source of price competition in gasoline marketing will soon be eliminated. The independent discount gasoline marketers saved the public more than half a billion dollars in 1972. In addition, until recently, they were leading a revolution in lower cost methods of gasoline marketing.

Price marketers are efficient competitors. They pass on their savings to the public in the form of lower prices for gasoline. But, notwithstanding these virtues, the independent price marketers are facing extinction.

Several of the integrated oil companies who historically supplied independent marketers, either directly or indirectly, are now refusing to continue to supply them. These integrated oil companies are taking unfair advantage of the extreme shortage of petroleum products. Petroleum products are being diverted to subsidiaries and marketing outlets that are owned or controlled by them.

The accompanying paper explains the unfairness of what is happening and recommends short-run and long-run steps that might be taken to preserve competition in the industry and to improve the overall social performance of the industry.

Over the past six to nine months, many price marketers have contacted me about their severe supply problems. They often ask the difficult question "What should we do?" During the past thirty days, the problem has intensified and large numbers of independents have been compelled to close stations, shorten hours, and discharge employees. Accordingly, I feel compelled to offer a comment on the public interest aspects of the problem. I voluntarily offer the statement, and no one retained me to prepare it.

I am a marketing professor at the College of Industrial Management at Georgia Institute of Technology and was previously a marketing professor at Northwestern University. For several years, the subject of gasoline marketing has been my major area of research and analysis.

Most sincerely,

FRED C. ALLVINE.

SEBASTIAN, FLA.

Senator HERMAN TALMADGE,
Capitol Hill, D.C.

DEAR SENATOR TALMADGE: I am seeking your assistance concerning the gasoline crisis.

As of June 1, 1973, Texaco will cut me from 47,400 gallons to 14,000 gallons of gas. I will not be able to maintain my business under these conditions.

My customers are composed as follows:

65 percent are commercial fisherman, cattlemen, farmers and citrus people. Twenty-five percent are town trade. Ten percent are road trade. In order to meet summer needs, I must have at least 60,000 gallons of gasoline.

Since my business hours are 7 a.m.–11 p.m. every day, I am unable to close my gasoline service without closing my grocery store.

I therefore ask your immediate assistance with this urgent matter.

Very truly yours,

WILLIE M. POOLE.

MINNESOTA MOTOR TRANSPORT ASSOCIATION,
May 2, 1973.

Hon. HUBERT H. HUMPHREY,
Old Senate Office Building,
Washington, D.C.

DEAR SENATOR HUMPHREY: The motor carriers of Minnesota are presently experiencing a shortage in fuel supplies which we understand will worsen before any improvement is seen. We have been advised by industry experts that this condition will prevail for at least the next 5 years. Last week our office conducted a survey of 25 member carriers of Minnesota Motor Transport Association. Each of these carriers has a problem of security supplies now or anticipates such a problem in the near future.

The trucking industry is Minnesota's second largest industry employing a total of 189,000 workers and provides materials and products needed by all people in every community in Minnesota. A sufficient supply of petroleum products is essential in order to maintain operation and service.

We recognize the overall needs of energy in our area, particularly during the winter months. We encourage you to initiate or support federal legislation to insure that petroleum products are made available in the state of Minnesota on an equitable basis with other states with regard to relative usage. It is our belief that unless such legislation is promptly enacted, Minnesota will suffer abnormally harsh shortages of petroleum products which in turn will result in unemployment, curtailment in services and other adverse consequences for the people of our state.

Sincerely,

JAMES N. DENN,
General Manager.

MID-CONTINENT FREIGHT LINES, INC.,
St. Paul, Minn., May 18, 1973.

Mr. CARL McCULLEN,
Phillips Petroleum Co., Phillips Building Annex,
Bartlesville, Okla.

DEAR MR. McCULLEN: We have had several long distance telephone conversations with you and other Phillips Petroleum personnel in your Bartlesville office because of the fact that we were notified by Wayne Anderson of your Minneapolis office that we would no longer be supplied with diesel fuel and gasoline commencing May 1, 1973.

No fuel has been allowed us since that date by your company, and while we appreciate the fuel shortage problem throughout America, we are not able to understand why an account such as ours should be completely eliminated, particularly since we have been a purchaser of your products since 1965 in Kansas City, Missouri; St. Paul, Minnesota; and Tulsa, Oklahoma. While we appreciate this was without contract, we had never been offered a contract and we understand that because of the no-contract situation we and others of that nature are the first to be completely removed from fuel supplies. We do not feel that this action is at all responsible and we are asking that your company reconsider its action with regard to restoring our monthly consumption of gasoline and diesel fuel the same as in the past.

Very truly yours,

H. E. NORIN,
President.

FLEETLINE, INC.,
West Saint Paul, Minn., May 15, 1973.

Senator HUBERT HUMPHREY,
Washington, D.C.

DEAR SENATOR HUMPHREY: In view of the fact that your Honorable Senator is at this time proposing a bill to equally distribute the amount of fuel available, I am enclosing this letter which would be of interest to you stating that my supply is being curtailed as of June 1st.

After dealing with Mobil Oil Company for twenty-five years, with a yearly consumption of 150,000 gallons of diesel truck fuel, you can see from the evidence of this letter I have been notified that I am no longer getting anymore fuel.

I am a food stuff-common carrier between St. Paul and Chicago and handle an average amount of 80,000,000 pounds per year. A business of thirty years will be closed out along with thirty-five employees.

I would appreciate any help you can give me on this matter. If there is any further information I can give you, please feel free to contact me.

Yours truly,

DEL SHOEMAKER,
President.

MOBIL OIL CORPORATION,
Milwaukee, Wis., May 10, 1973.

Attention: Purchasing Agent, Prices Expire May 31, 1973.

FLEETLINE INC.,
Inver Grove Heights, Minn.

GENTLEMEN: According to our records, our present commitment to supply your fuel requirements will soon expire. Because of current conditions in your area, we find that we no longer will be in a position to supply your needs when the commitment expires.

We sincerely appreciate your past business, regret having to take this action, and take this means to give you advance notice so that you can begin looking for an alternative source of supply.

Very truly yours,

R. C. LEACH,
Commercial Office Manager.

UNITED VAN BUS DELIVERY,
Minneapolis, Minn., May 3, 1973.

Hon. HUBERT HUMPHREY,
Senate Office Building,
Washington, D.C.

DEAR SENATOR HUMPHREY: We wrote to you on January 9, 1973 indicating the current problems with respect to fuel oil shortage. Since that time our major fuel oil supplier for the past 12 years Standard Oil Company has put us on an allocation basis equal to 70% of our consumption during the period from May 1, 1973 through April 30, 1974. In other words we will enjoy only 70% of the amount of fuel for the next 12 months that we used in the previous mentioned period. We need whatever influences you and your fellow congressmen can generate to cause some relief to the fuel shortage in this Upper Midwest region in order that companies like ourselves can continue to operate and serve the purpose of delivering goods to the consuming public. In addition to the problems of shortage, we have experienced cost increases up to 46% already from our supplier and for whatever little fuel we have been successful in purchasing from other suppliers, we have had to pay premium money even in excess of the previous mention 46% figure.

If we do not find some relief in immediate sight, we will have no alternative other than to curtail our operation to the extent of laying off approximately 125 of our existing 250 company employees. The reason for this being a 30% reduction in available fuel, plus within recent months we have increased our sales volume by an additional 20 to 25%. The multiples of these two figures and their compounding effects are very evident. We certainly want to avoid any reduction whatsoever and would like to continue the appreciable growth rate we have enjoyed in the past recent months and we feel that the hardships caused by such a massive layoff would be very extensive and would serve as a catalyst to appreciable unemployment in the area because of the related snowballing effects that unemployment creates.

In addition to the above mentioned problems on fuel just to operate our trucks, we have also been advised by our supplier that we will not be supplied any fuel oil whatsoever for heating for the Winter of 1973–1974. Our normal consumption for heating runs approximately 90,000 gallons.

Your influence and assistance are critically needed and we would appreciate any information that you can offer us in terms of updating, which would allow us to formulate management direction within our company on a general basis.

Thank you for your time and attention.

Sincerely,

ARNIE HILLMANN,
Vice President.

BUDGET RENT A CAR,
Minneapolis/St. Paul, Minn., May 23, 1973.

Hon. HUBERT H. HUMPHREY,
Senate Office Building,
Washington, D.C.

DEAR SENATOR HUMPHREY: The petroleum trade papers and news media have reported that Deputy Treasury Secretary William E. Simon is in charge of the Administrations Program regarding voluntary compliance of a plan guaranteeing a supply of gasoline to consumers based on amounts used by customers over a twelve month period from October, 1971 through September, 1972.

While Mr. Simon is in charge of the over-all program, it has further been stated that the Interior Department's Office of Oil and Gas is assigned to receive complaints from anyone who feels that they are not receiving a proper allocation of supplies.

Enclosed is a copy of our May 16th letter to Texaco. Mr. C. D. Close, the district sales manager for Texaco in Minneapolis, acknowledged receipt of our letter; however, they refused to deliver gasoline in accordance with our request and further state that they are "referring it to their Chicago regional office for advisement."

We would like to ask that someone in your office deliver the extra copy of this letter to the proper person in the Office of Oil and Gas at the Interior Department, along with the request that action be expedited in our behalf, which hopefully will result in our being able to purchase a supply of gasoline that is proportionate to our usage during the above stated base period.

Thanks for your cooperation.

Very truly yours,

JAMES J. BROOKSBANK,
President.

BUDGET RENT A CAR,
Minneapolis/St. Paul, Minn., May 16, 1973.

Re: Allocations of Petroleum Products As Outlined By the Office of Oil and Gas Under the Authority of the Eagleton Amendment to the Economic Stabilization Act.

TEXACO, INC.,
Minneapolis, Minn.

GENTLEMEN: As you know, we have been unsuccessful in securing a source of supply for gasoline to be used at our various locations in the Minneapolis/St. Paul marketing area. We understand that we should be entitled to a percentage of your total supply in this market and that we further qualify under two of the eight priority groups (number 5 as used by public transportation for automobile rentals from the Minneapolis/St. Paul International Airport; and number 8 as being in a state not well served by major oil companies as evidenced by the number of major companies pulling out of this market).

Attached is a tabulation of our deliveries during the base period, and we would request that you use this letter as authorization to deliver 8,000 gallons to the Budget service center located at the Minneapolis/St. Paul International Airport as soon as possible.

In addition, we would ask that you indicate the gallonage that we can anticipate receiving, which would be in accordance with your allocation.

We further ask that you notify us within the next few days as it does affect our over-all planning and procedures.

Thanks for your cooperation.

Very truly yours,

J. J. BROOKSBANK,
President.

TEXACO RECAP BUDGET PURCHASES, MAY 15, 1973

Date and Total Gallonage

October, 1971	101,848
November, 1971	94,054
December, 1971	156,241
January, 1972	113,647
February, 1927	74,799
March, 1972	58,344
April, 1972	48,799
May, 1927	90,299
June, 1972	57,667
July, 1927	89,771
August, 1972	145,608
September, 1972	137,744
Total	1,168,821

VILLAGE OF ELLSWORTH,
Ellsworth, Minn., May 10, 1973.

In the last week we have been faced with a real emergency due to fuel shortage—with the closing of Skelly Oil Company in Ellsworth. We are experiencing an acute gas and fuel shortage in our community. There are at least 50 farmers without supplies of gasoline and they will probably have enough fuel to get their corn in, but not their beans and other crops. No other firm can supply their needs because of the cutback in their allocations to supply only their own customers.

Now as the Council of Ellsworth we think this is very critical because the two suppliers in Ellsworth as of their quotas will not be able to keep up with the demand for the month of May. We the Village Council think there is something that can be done to eliminate this situation, not entirely, but something to insure the community that crops are important and with the production needed as now, we need this fuel and think it's a main concern of the State of Minnesota to begin thinking of the welfare of the whole state, not just a few. They should try to get enough fuel into Ellsworth to take care of this production of crops in the community and insure them a fair share in the welfare of the country, state, and community.

KENNETH HUCKING, *Mayor.*
ROYCE BECKER,
LOWELL E. COLWELL,
PAT DOHERTY,
WENDELL LOVRAIN,
Councilmen.

THUNDERBIRD PETROLEUMS, INC.,
Minot, N. Dak., May 9, 1973.

Hon. HUBERT H. HUMPHREY,
U.S. Senate,
Washington, D.C.

MY DEAR SENATOR HUMPHREY: The President's proclamation of April 18 pertaining to changes in the oil import program has caused such severe repercussions to our company's operations and economic status that we have prepared a "Position Paper" which is submitted herewith for your valued consideration.

Some immediate relief must be afforded the small independent refiner to thus enable his continued operation in these distressed times of petroleum product needs.

We additionally request your assistance in furthering with State governments, the President's recommendation to modify current State EPA standards to embody a relaxation permitting the return to use of high sulfur residual oils as a source of energy.

We earnestly solicit your review of our proposals and further, your direct intervention with the Office of Oil and Gas and its functional custodians, by prompt contact endorsing our position and needs.

Very truly yours,

J. L. OLVEY,
Vice President.

AMERICAN PUBLIC POWER ASSOCIATION,
Washington, D.C., April 27, 1973.

Hon. HUBERT HUMPHREY,
U.S. Senate,
Washington, D.C.

DEAR SENATOR HUMPHREY: I noted with keen interest your introduction of S.J. Res. 98 "to establish a system on an emergency basis for the equitable allocation of scarce petroleum products to assure that all areas of the Nation obtain a fair share of available petroleum supplies and to prevent anti-competitive practices in the petroleum industry."

Of particular significance to the American Public Power Association, which, as you know, represents some 1,400 local publicly-owned power systems in 48 States, is the inclusion in the objectives of S.J. Res. 98 of allocation of fuels to permit electric utilities to continue to provide essential public services.

I am enclosing a memorandum which describes recent fuel availability problems experienced by municipal electric utilities in 11 States, including Minnesota. It seems to me that the difficulties outlined clearly indicate the need for action such as you have proposed in S.J. Res. 98.

In comments on the President's energy message which APPA released on April 19, I pointed out that:

"One of the most serious deficiencies of the message is that it makes no provision for a fair method of allocating fuels that are in short supply, despite the fact that the message acknowledges that we must face up to the possibility of occasional energy shortages.

"Based on press accounts and reports by members of our organization, the short-term situation appears to be considerably more serious than that indicated in the President's message. A number of municipal electric utilities—small and large—already are experiencing severe difficulties in obtaining oil, and press accounts report that several major cities are unable to secure contracts to supply fuel for municipal purposes such as police cars, buses, fire engines, ambulances, etc.

"The fact of the matter is that an industry do-it-yourself allocation program is already in effect, but there are no known guidelines as to how this program is being administered, or whether due consideration is being given to essential public services.

"The Federal government should at the very least provide guidelines for a voluntary allocation program, and should be making contingency plans for a Government-administered allocation program if the voluntary guidelines are not effective, or do not serve the public interest. Unfortunately, neither alternative is mentioned in the President's message."

Sincerely,

ALEX RADIN.

PETERSON, TUPPER & SMITH,
Walker, Minn., May 14, 1973.

Hon. HUBERT H. HUMPHREY,
Senator, State of Minnesota,
Washington, D.C.

DEAR SENATOR HUMPHREY: I am enclosing a copy of a letter sent to Mr. Frank Orton of Orton Oil Co. from the Kerr-McGee Corporation. You will note the letter of April 13, 1973, indicates that Kerr-McGee will cancel their distributor sales agreement with the Orton Oil Company in Walker.

This cancellation means that the Walker area will not receive almost the total of 1,000,000 gallons of gas and fuel oil. Since none of the other oil companies have surplus supplies to see to the Orton Oil Company, this will have a substantial impact on this area.

This is a prime resort area and tourism is the financial backbone of this part of the State. Cancelling a distributor sales agreement at the commencement of summer will compound the problems of tourists obtaining gas in this area, both for their automobiles and boats.

I am not sure what can be done to assist Mr. Orton but we would greatly appreciate any help that you could give him or any suggestions that you could give us.

Yours very truly,

KENT P. TUPPER.

KERR-McGEE CORP.,
Oklahoma City, Okla., April 13, 1973.

Mr. FRANK ORTON,
Orton Oil Company,
Walker, Minn.

DEAR MR. ORTON: Under the provisions of Paragraph 4 of the Distributor Sales Agreement dated June 14, 1972 between Kerr-McGee Corporation and Orton Oil Company, Kerr-McGee Corporation chooses to cancel this Agreement effective June 30, 1973.

As stated in Paragraph 4, either party shall notify the other in writing at least sixty (60) days prior to the expiration of the primary term, or of any succeeding one-year period, of its desire to terminate at the end of the yearly period in which the notice is given.

If our District Wholesale Manager has not already explained the reason for this letter and our new program, please get in touch with our Regional Office for a complete explanation.

Sincerely,

W. N. PRITCHETT,
General Manager.

HOLMEN OIL COMPANY,
White Bear Lake, Minn., May 15, 1973.

DEAR SENATOR HUMPHREY We are a distributor of Gulf Oil Products here in White Bear Lake, with primary emphasis on retail home heating oil sales. We serve approximately 500 homes, plus a few churches and a nursing home. We are deeply troubled by the prospect of being left without a supply of fuel.

At the moment Gulf is backing us into a corner. They own the bulk plant which we use: they desire to sell it to us and we desire to buy it. They have told us that unless we pay a "good price" for the bulk plant, they will terminate our supply immediately. There are no other apparent sources available at the moment for the fuel we need to supply our customers.

It is our hope that swift federal action will come that will help control this very difficult situation and assure us of fuel for the coming heating season in Minnesota.

With sincere thanks,

JOHN A. HOLMEN.

JACOBSON OIL COMPANY,
Wadena, Minn., May 15, 1973.

Senator HUBERT H. HUMPHREY,
Washington, D.C.

DEAR SENATOR: We are one of the Minnesota oil Jobbers who are being put out of business by the gas and oil shortage. Our supplier, Kerr McGee Corp., has canceled our contract effective June 1, 1973.

Our company has been in business since 1931. We handle, along with gas and fuel oil (which is 60% of our sales), Ford Tractors and Implements and other lines of farm machinery and sporting goods. We have 11 employees and serve 400 fuel oil and 150 farm gasoline accounts who are having trouble finding a new supplier.

We also serve 4 other dealers in Clarissa, Sebeka, Parkers Praire and New York Mills who employ 6 people and who are going to have to close after June 1st when our supply from Kerr McGee is cut off.

After June 1st, we can purchase 30,000 gallons of gasoline a month (our needs are 125,000) with which we should be able to operate our station in Wadena on a reduced hour basis.

We desperately need government help.

Enclosed are copies of our gasoline and fuel oil accounts.

Yours truly,

DONALD SCHMITH,
Owner.

WADENA, MINN.

Senator HUBERT H. HUMPHREY,
Capitol Hill, D.C.:

Jacobson Oil Company, Wadena Minnesota in operation since 1931 has had its contract with Kerr McGee Corporation cancelled as of June 1, 1973. Because we cannot find a new supply of gas and fuel oil our four dealers Waynes Service Clarissa, Sarkela Garage, Sebeka, Warks Service Parkers Prairie and Mills Service Center, New York Mills with a total of nine people will be forced to close and our 400 fuel oil and 150 farm gas customers will have to look for a new supplier. We will be able to purchase 30,000 gallons of gas per month (needs are 125,000) to keep our station in Wadena open on a reduced hour basis. We desperately need Government help.

LEE POTTER CORPORATION,
Minneapolis, Minn., May 11, 1973.

Senator HUBERT H. HUMPHREY,
U.S. Senate Office Building,
Washington, D.C

DEAR HUBERT: I have not written you for a long time, but now that the oil companies are putting the pressure on the shortage of gas, fuel oil, etc., I wanted to give you my views on the possible cause.

As you probably well remember, I was in the oil business for some years in the 1920's and 30's as Vice President of Barasdall Refineries of Tulsa, Oklahoma. In the 30's the oil companies were indicted after being investigated by the Justice Department for collusion on setting up prices, etc., and finally pled nolo contendere in a Madison, Wisconsin trial.

I sincerely believe, but could now be mistaken that these shortages are agreed upon by all the major oil companies to force individual dealers out of business and raise prices on all products. And, possibly to cause public opinion to be on the side of the side of the Alaska pipeline, which I believe is okay.

As you are Chairman of the Senate Investigating Committee of the reason for oil shortages, I am sure you can determine if all our refining capacity is being used and if there now is a shortage of crude oil.

It has been some years since I have been in the oil business, but I do know of the many meetings of oil executives in past years.

My very kindest regards.

Sincerely,

L. A. POTTER.

SHAMLA OIL CO.,
Silver Lake, Minn., May 25, 1973.

Senator HUBERT H. HUMPHREY,
U.S. Senate,
Washington, D.C.

DEAR SIR: We, the Shamla Oil Co. Inc., have furnished aviation fuel to the Silver Lake, Minn. Airport for the past 26 years. Our supplier was the Union 76 of Minneapolis and now they have cut off all aviation fuel.

Ben Klima, owner of the Silver Lake, Minn. Airport, McLeod County, has planes that do crop spraying and now they are unable to do this.

Could you help us get some supplier so they can get these crops sprayed?

We would appreciate any help you could give us.

Yours truly,

FRANK H. SHAMLA, *President.*

WOOD CITY AERO SERVICE, INC.,
Cloquet, Minn.

CURT ERICKSON,
Minneapolis, Minn.

DEAR CURT: Here at Cloquet the fuel situation hit us hard as we were a Union 76 dealer and they are out of aircraft gas business.

Fortunately we were able to get set up with Phillips 66 at a higher cost per gallon of course.

At this time we are unable to obtain 80 oct fuel which we have a great demand for.

Sincerely,

ARNOLD R. ODEGAARD.

AIRMOTIVE ENTERPRISES, INC.,
Brainerd, Minn., May 24, 1973.

Re Our fuel status.

Mr. CURT ERICKSON,
Minneapolis, Minn.

DEAR MR. ERICKSON: We have been advised by our Phillips Supplier here in town that we will not receive any more 80 Octane until further notice. In the meantime, he says he is trying to borrow from Union Oil in Minneapolis.

He assures us, as of this writing, that there is no shortage of 100 Octane or Jet Fuel.

Thanks for your interest as President of MATA in this matter. Please keep us posted as to the various changes in this situation as they occur.

Sincerely,

JOHN C RIEDL.

SOUTHERN MINNESOTA AVIATION SERVICE, INC.,
Owatonna, Minn., May 26, 1973.

Re: Aviation Fuel.

Mr. CURT ERICKSON,
President, Minnesota Aviation Trades Association,
Minneapolis, Minn.

DEAR CURT: Responding to the MATA bulletin of this week, we have been advised by our supplier that 80/87 will no longer be available.

Further, we are advised that we can expect "to be taken care of" on 100. Our supplier is Phillips.

Best regards and many thanks for your concern,

Sincerely,

GLENN J. DEGNER.

FLIGHT TRAINING CENTER, INC.,
Eden Prairie, Minn., May 25, 1973.

CURT ERICKSON,
President, Minnesota Aviation Trades Association,
Minneapolis, Minn.

DEAR CURT: I am writing in response to Sherm Booen's letter concerning the aviation fuel situation. We handle Mobil products on FCM and to date have experienced no significant problems. Today, however, I spoke with a Mobil representative about some minor repairs on our gas pumps and he indicated that we could be encountering significant changes in policy from Mobil within the near future.

The shortage of 80/87 octane on the airport seems to be rather acute for the other dealers at present.

Please advise us if we can be of assistance to you in any way.

Kind regards,

AL LANGE,
General Manager.

BUFFALO MUNICIPAL AIRPORT,
Buffalo, Minn., May 30, 1973.

Mr. CURT ERICKSON,
President, Minnesota Aviation Trades Association, Inc.,
Minneapolis, Minn.

DEAR SIR: We are out of 80/87 aviation fuel at our Buffalo Municipal Airport. We have carried Union 76 since we built the airport seven years ago. There is some 100/130 fuel available that could be used in an *emergency.* We would expect engine trouble if it was used consistently. The Continental Motor Corporation states that in their smaller aircraft engine, the higher octane rating should be only used in an emergency.

We will support any action to help alleviate this situation and we also would appreciate any help you could give us in obtaining any fuel.

Very truly yours,

WENDELL SETTERBERG,
President.
DWAYNE A. PUFFER,
Secretary.

CERTIFIED OIL COMPANY,
Columbus, Ohio, April 25, 1973.

Senator HUBERT HUMPHREY,
U.S. Senate Office Building,
Washington, D.C.

DEAR SENATOR HUMPHREY: We operated 265 independent gasoline stations until last Friday. Friday, we had to close 40 of them because of the shortage of supply.

I certainly appreciate your resolution to provide authority to the President to do something to help us in this time of need.

As an independent, we do not have refineries and we are one-hundred percent dependent on major oil companies. I think with support such as yours, the major companies will think a long time before they tend to cut us off completely.

All we want is a fair shake.

Sincerely,

CARLYLE M. BAKER,
President.

THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA,
Washington, D.C., May 15, 1973.

Hon. HUBERT H. HUMPHREY,
U.S. Senate,
Washington, D.C.

DEAR SENATOR HUMPHREY: The enclosed is short and self-explanatory. Identical letters have been sent to the Senate and House Public Works Committee Chairmen.

In 1972 the construction industry accounted for more than 11 per cent of our Gross National Product. Construction, the largest industry in this nation, employing more than 4.5 million workers, is faced with the very real possibility of a precipitous stoppage. The effects would be felt in every county of the entire United States in a matter of days.

We urge you to give this matter your closest personal attention.

Sincerely,

NELLO L. TEER, JR.,
President.

Enclosure: Letter, May 14, 1973, to Chairman, Senate Public Works Committee.

THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA, INC.,
Washington, D.C., May 14, 1973.

Hon. JENNINGS RANDOLPH,
Chairman, Senate Public Works Committee,
Dirksen Building, Washington, D.C.

DEAR SENATOR RANDOLPH: The energy crisis is here today, and escalating rapidly.

Often a bellwether of economic conditions, the construction industry has been hit already by the energy crisis that most industries still see only as a potential future problem.

Increasing numbers of construction firms are being flatly rejected as they request fuel commitments for jobs scheduled to start in the next 30 to 90 days. Literally hundreds of their construction programs will be stopped, before they start, for *lack of fuel to move the scrapers, bulldozers, dump trucks, and paving machines necessary to this work.*

An immediate "ripple" effect on the entire U.S. economy is inevitable as tens of thousands of workers are laid off.

We urge the Public Works Committees of the Congress to hold hearings as soon as possible to examine the dimensions of this urgent problem and to seek solutions to it before the consequences reach disastrous proportions throughout the nation.

Sincerely,

NELLO L. TEER, JR.,
President.

STATEMENT OF THE NATIONAL COUNCIL OF FARMER COOPERATIVES ON THE FUEL CRISIS FACING AMERICA'S FARMER COOPERATIVES AND THEIR MEMBERS

America's farmer-owned cooperatives are major suppliers of power fuels throughout Rural America. More than half of all farmers' power fuel requirements in key Midwestern agricultural areas are supplied by these cooperative organizations. They are currently responsible for more than 26 percent of the nation's total farm fuel needs.

The National Council of Farmer Cooperatives represents twelve cooperative organizations with extensive fuel refining and distribution facilities. These cooperatives service 1.5 million farmers, providing $4.5 billion annually in goods and services. It is the responsibility of these cooperatives to supply their farmer members' fuel needs, so that farming operations can be conducted in the most efficient and productive manner.

As supplies of power fuels tightened during the past year, trends developed in rural areas whereby major oil companies closed hundreds of stations and distribution outlets. Especially hard hit is the upper Midwest. The result has been a shifting of fuel supply and distribution responsibility to those few remaining sources in the affected areas. Farmer cooperatives, in many cases, have found themselves to be that only remaining source of power fuels for rural residents. Such trends have greatly increased the already heavy burden upon cooperatives' fuel distribution networks.

Farm fuel needs have never been greater in Rural America. Abnormally wet weather last fall forced delays in harvest, and prevented normal fall plowing. An extremely wet spring, coupled with severe flooding in low-lying areas, prevented early spring field work. As a result, a farm fuel crunch was delayed in coming, in 1973, but it's now here. The fact is: there is a severe shortage of gasoline, diesel fuel, and propane gas in many major agricultural areas.

In the face of a fast-growing demand for farm power fuels, a most absurd situation has existed at farmer cooperative refineries. These refineries have been forced to operate far below their refining capacity due to severe shortages of crude oil. While farm fuel needs were increasing around them, America's cooperative refineries have been operating at levels approaching 70–75 percent of their normal capacity. At least one major cooperative refinery was forced to close during the peak refining cycle because no crude oil was available to supply it.

Most of our cooperative refineries remain short of crude oil, because their historical suppliers—the major oil companies—ceased "trading tickets" with them in late December, 1972. This traditional ticket trading has been essential to the effective operation of independent refineries for more than 14 years. In brief, land-locked inland refineries, such as the bulk of our cooperative refineries, trade their Government-issued import quota tickets for domestic crude oil from the major oil companies. These majors then use the import tickets to bring more foreign crude oil into their coastal refineries. This process ceased in late 1972, after rising prices of foreign oil made it more economical for the majors to refine domestic crude oil. Our inland cooperative refineries, located hundreds of miles from port facilities, suddenly found themselves with mounting inventories of import tickets—and dwindling supplies of crude oil.

The National Council sensed a potentially serious fuel shortage problem arising in farm areas as early as mid-January, 1973. Because we have the advantge of being close to the refining and supply portion of the petroleum industry—while being well versed on farmers' needs—we could fairly accurately predict a crisis situation months in advance of its happening at the farm level.

Farmer cooperatives took their story to the Administration in a series of top-level meetings, beginning on February 9, 1973. We met with Under Secretary of Agriculture J. Phil Campbell, Deputy Secretary of the Treasury William E. Simon, now Director of the Office of Oil and Gas Duke R. Ligon, plus officials of the White House Domestic Council, Department of the Interior, and the Cost of Living Council. Over a period of two weeks, we touched every base available to us. We were met with skeptism and disbelief. We received some encouragement, but little concrete action. As the situation at members' refineries deteriorated, we increased our pleas to these officials and others. We moved to Capitol Hill. Our reception was better there, but Congress could do little except apply pressure back to the Executive Branch.

The National Council months ago pleaded for Administration action to establish a mandatory fuel allocation program between the major oil companies and their historical independent customers. We asked for top priority for agriculture's needs. We were told that no legislation then existed to make this possible. We received no relief.

APRIL 6 SITUATION

We were then told to provide the Administration with specifics. On April 6, 1973, we conducted a survey of each of our twelve cooperative refineries. Shortages were recorded in barrels per day, and were reported to the Administration as follows:

1973 FARM FUEL SURVEY (SURVEY CONDUCTED ON APR. 6, 1973, OF 12 FARMER-OWNED COOPERATIVES THAT SUPPLY PETROLEUM AND PETROLEUM PRODUCTS TO THEIR FARMER MEMBERS)

[Barrels per day]

Cooperative	Service area	Demand	Supply	Shortage
Midland Cooperatives, Inc.	Minnesota, Wisconsin, upper Michigan, Iowa, North Dakota.	19,000	4,500	14,500
Indiana Farm Bureau Cooperative, Inc.	Indiana.	15,000	11,500	3,500
Texas City Refining, Inc.	Kentucky to Maine (provides 2 major cooperatives with petroleum).	80,000	57,600	22,400
Agway, Inc.	Northeastern United States.	(1)	(1)	(1)
Southern States Cooperative, Inc.	Southeastern United States.	(1)	(1)	(1)
Landmark, Inc.	Ohio	6,000	5,100	900
Farmers Union Central Exchange, Inc.	Minnesota, North Dakota, South Dakota, Montana, Wyoming, Idaho, Washington, Oregon, Nebraska, Wisconsin.	30,860		5,000,000
MFA Oil Co	Missouri	8,000	5,000	3,000
Farmland Industries, Inc.	North Dakota, South Dakota, Nebraska, Kansas, Oklahoma, Texas, Minnesota, Iowa, Missouri, Arkansas, Illinois, Tennessee, New Mexico, Colorado, Wyoming, Montana, Wisconsin, Utah.	60,000	43,500	16,000
FS Services Inc.	Illinois, Iowa, Wisconsin	26,400	22,030	4,370
National Cooperative Refinery Association.	Kansas, Nebraska, South Dakota, North Dakota, Minnesota, Wisconsin, Illinois, Iowa, Missouri.	50,000	46,000-50,000	0-2,000
Land O'Lakes, Inc.	Iowa, Nebraska, southern Minnesota.	[2] 83,592,000	[2] 63,813,000	[2] 19,779,000

[1] Included in Texas City report.
[2] Gallons annually.

Because cooperatives have a deep obligation to serve the needs of their farmer members, wide-ranging efforts were made to secure supplies of refined products to feed into the distribution pipelines. Our cooperatives began purchasing gasoline on the open market at inflated prices to meet farmer-members' needs. Premiums of five cents per gallon over previous wholesale prices were the norm. One National Council member cooperative lost more than $1 million in April/May gasoline sales to keep farmers operating. 'We just couldn't pass those high prices along to our members," was one official's reason. "We were caught in the middle."

MAY 4 SITUATION

The farm fuel situation deteriorated more as fields dried out, and farmers moved into Spring work. Again, the National Council was asked to substantiate its pleas on fuel shortages—and again, it answered through its Kansas City-based Farmland Industries, Inc. We submit the following letter dated May 4, 1973, to Secretary of Agriculture Earl L. Butz:

MAY 4, 1973.

DEAR SECRETARY BUTZ: Available gasoline supplies have reached critical levels in the midwest, and severe shortages will be experienced by June 1973. National goals for agricultural production and food prices may not be met this year.

Midwest gasoline inventories on April 20, 1973, were 18.2 million barrels, which is approximately 6.5 million barrels below prior year levels and is only 2.2 million barrels above minimum working stock levels. Thus, present gasoline inventories in the midwest are critically low.

The first chart attached shows projections of gasoline inventories in the midwest for the period May through December 1973 based on the anticipated gasoline supply and demand for that period. This shows a very alarming situation.

United States gasoline inventories are also far below previous years. The national inventory on April 20, 1973 was 204 million barrels, which is more than 23 million barrels below the inventory one year earlier.

Assuming that the national gasoline inventory declines during the high demand summer months as it did in 1972, the inventory on September 1, 1973, would be approximately 175 million barrels. This is 15 million barrels below the estimated minimum working stock level for the United States of 190 million barrels. See attached chart on U.S. gasoline inventory.

Gasoline inventories of Farmland Industries, Inc. are depicted on the final chart attached. Farmland Industries will be short of gasoline and unable to meet demands of farmers.

Farmland Industries provide over 40% of the gasoline volume for agricultural use in Kansas and Nebraska and supplies a substantial portion of the agricultural gasoline requirements throughout the remainder of the midwest.

The total impact of such a shortage is far reaching since the midwest provided a major portion of the total United States production of many food and fiber crops.

As is the case with most inland independent refiners, Farmland is critically short of crude oil. Refinery crude oil processing rates were first reduced during the fourth quarter of 1972 due to the crude oil supply situation. The supply position has further deteriorated since the first of 1973.

Additional sweet crude oil is needed to permit the operation of independent refineries at capacity. Estimated idle capacity is 323,000 barrels per day. This is a national tragedy in such a time of extreme need. Ways must be found immediately to get more crude oil to these refineries to forestall a national emergency.

The U.S. government must help solve this problem. Efforts to date have not been successful.

Enclosed are two copies of "The Critical Gasoline Situation Facing Midwest Agriculture." This brief explains in more detail the crisis facing our nation's agriculture and food production.

We respectfully solicit your continuing support and assistance.

Sincerely,

FARMLAND INDUSTRIES, INC.

Accompanying this two-page letter to Secretary Butz was a series of three charts specially prepared by Farmland Industries' economists. They illustrate, using the best information available to them on May 4, that:

(*a*) Total U.S. Gasoline inventories by September 1, 1973, would be reduced to 175 million barrels—15 million barrels *below* the estimated minimum working stock level. Industry estimates are that the U.S. needs an inventory of 190 million barrels to meet demand.

(*b*) Gasoline inventories in the Midwest will decline to *critical* levels by mid-June, 1973. Indeed, at this time—or soon after—gasoline inventories and supplies will not be available to adequately service the Midwest.

(*c*) Farmland Industries, Inc., prime supplier to over 40 percent of the farm fuel needs of Kansas and Nebraska (plus a substantial portion of farm fuel needs through the Midwest) may be unable to supply the fuel needs of its farmer customers after mid-June.

By early May, the U.S. Department of Agriculture began a monitoring system of farm fuel supplies throughout the U.S. Our cooperative refineries shared in this reporting system, along with other independent refineries, and state and local governments. Much of the specific data gathered was personal and confidential in nature. But we can glean out some specific conclusions, as reported to the highest levels of the Administration:

(*a*) Land O'Lakes projects the following fuel demand increases this Spring over that of a year ago: Gasoline up 15–20 percent; diesel up 20–30 percent.

(*b*) Midland Cooperative's refinery at Cushing, Oklahoma, is now operating at 50 percent of capacity due to a shortage of crude oil.

(*c*) Suppliers have reduced Michigan Farm Bureau Cooperative's fuel allotment to 66 percent of last year's purchases.

(*d*) A Major oil company has cut off supplies to 600 farmers in Delaware. Farmers asked Southern States Cooperative to supply their needs. The cooperative cannot.

(*e*) Landmark Cooperative estimates that it will be 20 percent short of fuel needed to supply Ohio Farmers after June 1.

(*f*) Cooperatives serving the Midwest fear a severe fuel crisis in early June. Wet weather has simply postponed the crisis.

The documented evidence goes on page after page. Providing reams of paper and thousands of words of proof won't solve the farmers' present and prospective farm power fuel crisis. But neither will Government statements and so-called "voluntary" allocation programs.

It is time that Americans and their Government in Washington, D.C. face up to the fact that the fuel crisis is *everyone's* problem. Without fuel this Spring and Summer, our farmers won't simply suffer reduced farm income because of smaller harvests. The problem goes much deeper than that. Our Government is calling for the largest production of food in the nation's history. Over 50 million additional crop acres have been released from set-aside programs to help increase food supplies—and keep prices at low levels. If 1973 agricultural production fails to meet national goals, if a lack of adequate supplies of grain reduce farm exports, and if discontent runs rampant through Farm areas every American will suffer through vastly higher food prices, a worsening balance of payments situation, and an accelerated loss of farms and farmers.

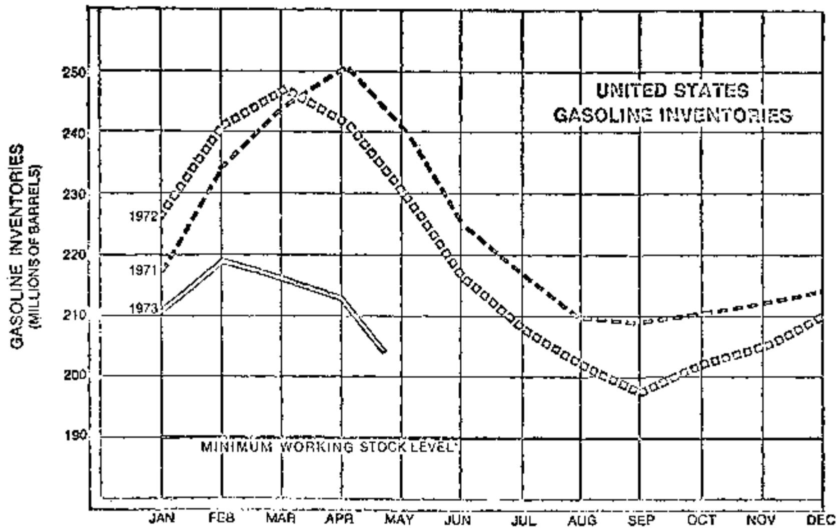
The National Council of Farmer Cooperatives and its member cooperatives remain optimistic. We cannot agree with the small Illinois oil company, that after 53 years of business, was forced to close last month because of the fuel shortage, and told its customers: ". This is our swan song, we wish to thank you for your business. We feel we have given you service, and a price, the likes of which you will never see again—and anyhow, maybe 53 years is long enough!"

Farmer Cooperatives will continue their obligation to serve American agriculture with efficiency and sacrifice. Much cooperative sacrifice has already helped keep the farm fuel crisis from becoming even more serious. We shall continue to strive. But we need help from both Government and industry. In this regard, we respectfully request immediate implementation of the following proposals:

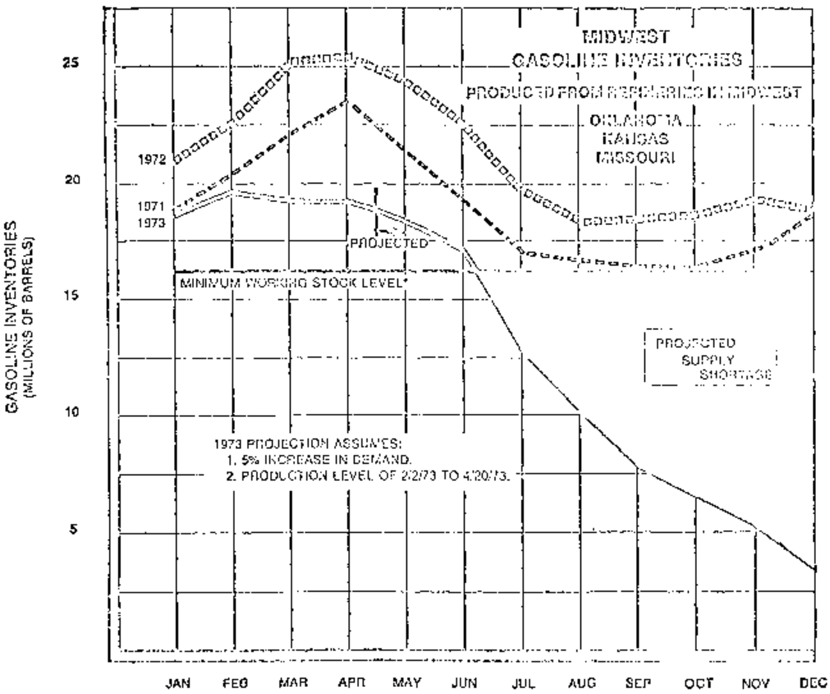
1. Inland refineries serving agricultural areas must be assured of adequate crude oil, so that they can operate at full capacity;
2. Refined gasoline, diesel fuel, and propane must be allocated to inland areas for the immediate use of farmers and agricultural suppliers;
3. Government transportation and distribution facilities must be made available to assist farmer cooperatives and other farm supply organizations in meeting farm fuel needs.

We have long passed the time for rhetoric. Rural America has a serious fuel crisis, and prospects point to a worsening crisis as harvest approaches this fall. Government and industry must mobilize immediately to permit inland independent refiners and distributors to again operate at full capacity. The nation's farmer cooperatives stand ready to carry their share of the responsibility—but as has been painfully apparent since January—we cannot do it alone.

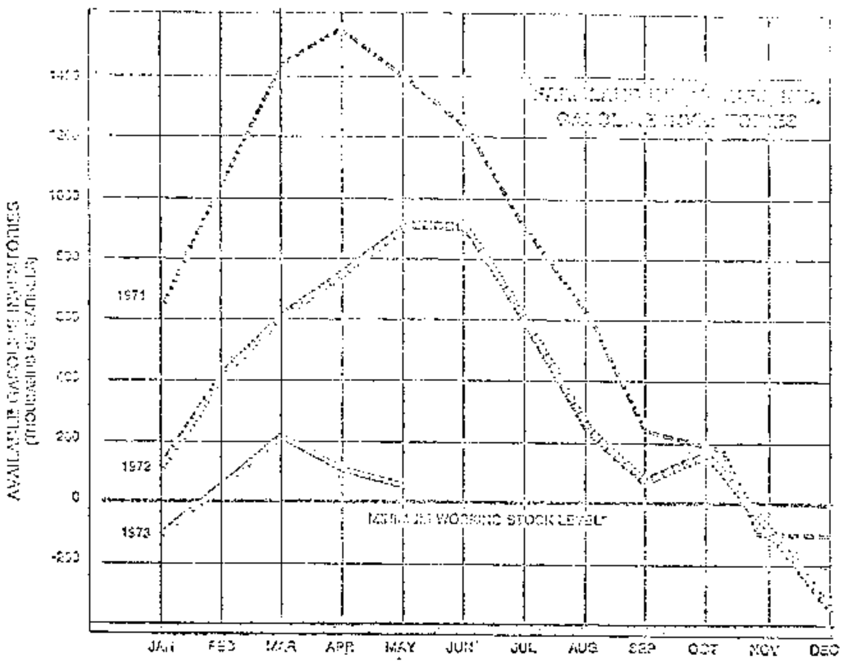
Action must come ***now***—and ***fast.***



*ESTIMATED MINIMUM VOLUME REQUIRED FOR REFINERY OPERATIONS, PIPELINE FILL, AND STORAGE TANK BOTTOMS.



*MINIMUM VOLUME REQUIRED FOR REFINERY OPERATIONS, PIPELINE FILL, AND STORAGE TANK BOTTOMS.



*INVENTORIES BELOW MINIMUM WORKING STOCK INDICATE EFFECT OF [illegible] VOLUMES.