PIRINC

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FOR RELEASE TO AM'S OF WEDNESDAY, APRIL 21, 1982

NEW YORK, April 21--A new study by the Petroleum Industry Research Foundation, Inc. (PIRINC) raises the question whether the expected benefits from the proposed oil import fee would justify the inevitable market dislocations resulting from it. The proposed oil import fee is aimed at reducing the federal budget deficit and encouraging domestic oil and gas conservation and exploration. It could achieve those goals only through substantial direct government intervention in the U.S. energy market.

Among the dislocations this intervention would cause are:

* A $5-a-barrel import fee would cost consumers $29 billion in higher prices for petroleum products in its first full year but would yield the Treasury only $11-13 billion in net additional revenue. The principal reason for the difference between consumer cost and revenue yield would be the ripple effect of the higher oil prices throughout the economy. This would increase the inflation rate by about 1.3 percentage points in the first full year, and cause a reduction in the Gross National Product of nearly $30 billion.

* Higher oil prices would permit correspondingly higher natural gas prices, particularly from January 1985 on when wellhead price controls on some 55 percent of total gas production are scheduled to end.

* Oil and gas consuming, processing and marketing industries would be particularly affected by the import fee. Some of these industries such as refineries, airlines, trucking and petrochemicals are currently in economic difficulty. By contrast, the oil and gas producing industry, which is faring relatively well in the current recession, would substantially benefit from the fee. For oil producers whose prices would over time rise by the full amount of the import fee, about 60 percent

of the increase would go to the Treasury in the form of additional Windfall Profit and corporate taxes.

* Since it is unlikely that Europe, Japan or Canada will take similar steps to raise their oil costs above the world price level, most U.S. products will become less competitive internationally because they have some direct or indirect petroleum or gas component in their manufacturing and/or transportation costs.

Looking at the potential benefits of the fee (aside from its generation of revenue), the study estimates that U.S. oil demand would be reduced by 1.5-1.8% and U.S. oil imports by 5 percent within a year after imposition of a $5/Bbl oil import fee. The study calls this significant but points out that despite a 12 percent decline in the crude oil costs of U.S. refiners between March 1981 (when crude prices peaked) and March 1982, demand continued to decline by 7-8%, while domestic oil and gas exploration activities in the first two months of 1982 were 40 percent above the same period a year ago. The study asks whether in view of these developments there is really an immediate urgent need for an import fee to offset the recent decline in world oil prices.

The study examines the possibility of an increase in the federal gasoline excise tax as one alternative to an import fee. It finds that the excise tax would be clearly superior as a revenue generating mechanism, since all funds collected would go directly to the Treasury. It would also be more equitable, since gasoline consumption is more evenly distributed between and within regions than consumption of other oil products.

The excise tax would be less effective than an import fee in encouraging oil conservation and exploration but would cause substantially fewer economic dislocations.