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## OIL IMPORTS AND THE NATIONAL WELFARE

An Inquiry into the Economic and Strategic  
Aspects of United States Oil Imports.

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Most imports of essential commodities which are in competition with domestic products have at times become the subject of controversies. These controversies arise from the obvious fact that different segments of the importing country's economy and security are differently - and usually conversely - affected by any given level of imports.

In the economic sector, the imported commodity is bound to benefit the consumer, since it must have some price, quality or service advantage over its domestic competitor in order to maintain a significant volume. Furthermore, it is bound to cause an increase in the importing country's export trade. The converse factor of this overall economic advantage is the decline of the domestic competitor's share of the market. This may range all the way from total elimination of the domestic industry to merely a deceleration of its accustomed rate of growth.

The two-fold effect of essential imports on national security is perhaps less obvious and not as traditionally recognized nor as traditionally expounded, but it is there, nevertheless. All imports conserve domestic national resources or channel them into more efficient industries, while, at the same time, strengthening the importing country's foreign trade policy, which is now universally recognized as an important instrument of national security. The converse factor here is the importing nation's increasing dependency on foreign supply sources which may not be available under circumstances adversely affecting the country's national security.

In this country the federal government is charged with preventing any such adverse affect of imports on national security, under section 7 of the U. S. reciprocal trade law. However, there is a national security aspect to most economic considerations and an economic aspect in most national security matters. Thus, in order to carry out its

assigned duty, the government must attempt to establish the approximate point at which the total advantages to the national welfare of the importation of an essential commodity begin to be outweighed by the total disadvantages to it. In a free economy, it is only when this "peril point" has been reached, or when there is reasonable certainty that it will shortly be reached, that the government should actively intervene in any import controversy. If it intervenes without regard to this specific peril point, which can be fixed only on the basis of the most careful economic and strategic analysis, it may cause severe harm to the best interests of our national security, since restricting imports prematurely, that is while their total effect on the national welfare continues to be favorable, can be just as damaging as failure to act after such imports have become a threat to the community.

We will now briefly examine the current oil import issue within the framework of these considerations, looking first at the economic and then at the national security effects of the current level of oil imports.

First, the economic advantages of oil imports. These are so well recognized that we need not restate them here in great detail. Imported oil, on the whole, can be landed cheaper on the U. S. East Coast and West Coast than domestic oil, despite the existing duty rate equal to about 3% for medium and light crude oil and  $1\frac{1}{2}\%$  for heavy crude and fuel oil. This fact is recognized <sup>by</sup> ~~on~~ all parties involved. It is further recognized that this disparity between domestic and foreign prices is bound to grow since all signs indicate that the domestic crude oil industry has reached the phase of diminishing return inherent in the life cycle of all extractive industries, which occurs when the same amount of productive effort yields a progressively



smaller volume of output. The steady long-term decline of the quantity of oil found per foot drilled or per well completed is characteristic of this development. On the other hand, production in most other major oil countries, being comparatively new and undertaken on a smaller scale, has not yet reached this stage, but rather is still ascending toward the point of optimum return. Thus, there is no question that, purely from the price point of view, the consumer derives clear and growing benefit from each barrel of imported oil, compared to a barrel of domestic oil in those areas where imports can be laid down cheaper than domestic oil. (As of now, this can be done only in the East Coast states and as far inland as Lake Erie, in the three West Coast states and in northern Minnesota and Wisconsin. In all other parts of the U. S. foreign oil is at present not competing with the domestic product).

There is also general agreement that the proved reserves of the major foreign oil-producing countries are considerably larger than those of the United States, both in absolute terms and in relation to current output, so that the question of how long foreign supply areas can continue to ship oil to the U. S. is moot.

Another positive effect of oil imports about which there is no dispute is its benefit to the U. S. exporter. Since oil is our second largest import commodity, currently earning foreign nations about \$1.2 billion annually which they can and do use to buy goods from the United States, it certainly contributes significantly to our export trade, and thus to our total economic strength.

Yet, while there is general agreement on the economic benefits of oil imports, an explosive area of disagreement exists on the question of what, if any, harm oil imports cause to the economy. Such harm as may be done would primarily affect the domestic oil producer, who



is, therefore, the principal petitioner against unrestricted imports. His main opponent is, of course, the oil company with its own foreign oil production and/or with refineries in any of America's three oil import regions.

Though these two interest groups are on different sides of the fence on the question of imports, there are, nevertheless, some important areas of agreement between them: (1) the importers definitely do not wish to see the domestic oil industry destroyed under any circumstances, if for no other reason than that virtually all oil importers are also domestic producers; (2) the domestic producers do not advocate, or even desire, a complete elimination of all oil imports. This applies particularly to imports of heavy crude oil, asphalt crude and residual fuel oil which account together for nearly 45 percent of our total oil imports (heavy crude accounts for some 20 percent of crude oil imports). The bulk of this heavy foreign oil could be replaced from domestic sources only by using our lighter crude oils which are more expensive, since price differentials between various types of oil are largely determined by their respective gravities. For the specific, limited uses to which residual fuel oil (the main product made from heavy crude) can be put, this would mean an inefficient use of a domestic natural resource as well as an even higher price differential than exists generally between foreign and domestic oil. This was fully recognized by the most famous spokesman for the domestic oil producing industry, Gen. Ernest O. Thompson of the Texas Railroad Commission, who stated before a Congressional Committee in 1955, "...we could favorably import products that cannot be economically made from our high gasoline-content crude."

Thus, the main controversy between the two groups centers on the more than 800,000 barrels of competitive medium and light crude oil

which enter this country daily from abroad.

There is no doubt that each barrel of this imported oil displaces a barrel of domestic crude oil. There is also no doubt that, particularly in the last ten years, imports have increased at a faster rate than domestic production. In 1946, imports of medium and light crude oil (25 degrees gravity and above) were equivalent to only 2.7% of domestic production. By 1950, the ratio had risen to 6.2%. In 1956, it came close to 10%, and for 1957 it will undoubtedly be still higher. Thus, there can be no argument with the domestic industry's claim that it is losing a growing share of its traditional market to imported oil.

But what we are interested in is not the domestic oil industry's share of the market, but whether or not it has been directly injured by foreign competition. Only if this has happened, or is about to happen, i. e. only if the industry's output, earnings, employment, capital expenditures have declined or if at least one of the above series has done so, do we have evidence of injury and, thus, of the negative economic effect of oil imports. Decline of the total market share is not, by itself, indicative of such injury. The last manufacturer of horse-drawn utility carriages must have had 100% of the existing market when he went out of business. On the other hand, it is typical for manufacturers of successful new products to lose part of their share of the market once a demand for their product has been created, since others will then begin to compete with them. The number of T. V. set manufacturers has multiplied rapidly since 1946, so that the share of the market of each has certainly shrunk. Yet, it remains one of our healthiest and most dynamic industries because of the vast increase in demand which gave both the original producers and the newcomers a steadily mounting sales volume.

Thus the fact that a particular domestic producer's group changes its share of the market is, by itself, no indicator of whether the group's economic strength is waxing or waning. However, the trend of its actual output certainly is such an indicator.

In a dynamic economy, the only true sign of economic health is growth in real terms. The domestic oil producing industry has been characterized by this type of growth throughout its entire 99-years history. Taking the period from 1920 to 1957, the compound average annual growth rate amounted to 4.9 percent, which is considerably higher than the comparable growth rate for total U. S. industrial production or for U. S. energy requirements. Yet, during this entire 37-year period, U. S. crude oil producers had to face the competition of imported oil. For 13 of these 37 years, crude oil imports were subjected to the relatively mild restriction of a 21¢ per barrel duty rate. For the other 24 years, there was either no restriction or one that was so mild as to pose, admittedly, no effective barrier to crude oil imports. Since it may be asked whether this long-term overall increase of 4.9 percent does not hide a decline in more recent times as a result of the upswing in crude oil imports in the postwar period, a break-down is given of the compound annual rate of increase of domestic crude oil production into 5-year periods (with the exception of the last period which covers a seven-year span):

Period	<u>Compound Annual Rate of Growth</u>
1920-1925	11.7%
1925-1930	3.3
1930-1935	2.1
1935-1940	6.3
1940-1945	4.9
1945-1950	2.9
1950-1957	4.2

These figures show that domestic production increased throughout the 37-year period under analysis. It shows further that the annual increase in the latest period is very close to the long-term rate for



the entire period.

Of course, since U. S. oil demand increased at an even faster rate during this period, about 6.0 percent annually, the domestic oil industry would doubtlessly have risen at this higher rate, had it not been for oil imports. Thus, the growth of the domestic oil producer was definitely slowed down by competitive imports, but it continued, nevertheless, to maintain a rate which must be considered healthy by all existing standards of American business.

The increase was even sharper in value than in volume since domestic oil prices have advanced steadily throughout the last forty years: In the mid-1930s, when oil production came first under the control of state regulatory bodies, the average price per barrel was approximately \$1.00, while at present it is \$3.15. Of course, much of this increase reflected the general rise in all cost factors as well as the higher cost of finding oil. However, there is no evidence whatsoever that net profits derived from domestic crude oil production have declined in the period under discussion. Certainly, total net profits of the producing element of the domestic oil and gas industry have been on the rise for the last several years. This is shown by the Chase Manhattan Bank's annual review of 33 U. S. oil companies. The net income (after taxes) of the domestic producer segment in this group has increased every year for the period 1953-1956. Even more striking has been the increase in annual capital expenditures for the production segment of the U. S. oil industry. With the single exception of the recession year of 1949 (when there was a very slight dip) these expenditures have increased in every one of the 11 postwar years (1946-1956). No interruption at all was recorded during this period in the annual growth of the oil and gas producing sector's fixed gross assets which rose from \$8.9 billion in 1946 to \$26 billion last year.

The tripling of such a gigantic amount in the space of 11 years does not suggest that this industry is on the decline. Neither does the employment record of this particular sector which rose from a monthly average of 189,000 employees in 1939 to 220,000 in 1946, to 254,000 in 1950 and to 348,000 in 1957.

Measured by the above yardsticks, which are customarily employed to judge the health of any industry, the domestic oil and gas industry is continuing its dynamic expansion, despite the increase in competitive imports.

It may be objected that all of the above cited figures refer to both oil and natural gas production and thus give no indication of the true state of the crude-oil producing sector alone which is the only one directly affected by oil imports.

Yet, natural gas and crude oil are joint products. They are found by the same companies using the same methods, under the same geological conditions and one third of all natural gas comes from the same wells as crude oil. Thus, the economic concept of joint-product operations requires us to consider total revenues from all operations of the domestic hydrocarbon producer (i.e. his "product-mix") in determining whether or not he has been injured.

The economic importance of the products other than crude oil to the domestic producers is shown by the fact that in 1956 they marketed 10.1 billion Mcf of natural gas at an average value of 10.8¢ per Mcf as well as nearly 800,000 barrels daily of natural gas liquids (which the producer extracts from the "wet" natural gas at the wellhead). The combined well-head value of these two gaseous hydrocarbons amounted to an estimated \$1.70 billion, compared to \$7.26 billion for the wellhead price of domestic crude oil. Thus, the two gaseous products contributed nearly 20% of the gross income of

the U. S. hydrocarbon producing industry in 1956 (and 47% of its energy volume).

Thus, the domestic producer is likely to encounter commercially exploitable deposits of all three of these hydrocarbons in the course of his exploration efforts. His incentive for exploration activity is therefore related to the market demand for all hydrocarbons and not just one.

Of course, crude oil is still the most important of the three. But the share of the other products in the total is definitely and rapidly rising. In the postwar period, natural gas production has grown at an average annual rate of 9.5 percent, compared to 3.9 percent for domestic crude oil output. The future share of gaseous hydrocarbons in the total value of the domestic producer's output is indicated by the value of the gross additions to natural gas reserves during the years 1952-1956. These were equivalent to one third of the value of gross additions to crude oil reserves, calculated on the basis of new-contract prices for natural gas in 1956 and the prevailing price for crude.

Two other points should be mentioned in connection with the concept of total hydrocarbon production: (1) All three hydrocarbons are competitive in many of their uses. This competition does not affect the domestic producer who supplies them all. However, it does affect the oil importer who supplies only one type of hydrocarbon and whose actual or potential market is therefore reduced each time a consumer switches from oil to a gaseous hydrocarbon. (2) The total value of all crude oil imports amounted to \$829 million in 1956. This was equivalent to 9% of the total value of the domestic output of the U. S. oil and gas industry. In determining the purely business-economic consequences of oil imports on the domestic producers this



value percentage figure has considerably more meaning than the more often quoted volume relationship of crude oil imports to domestic crude oil output which amounted to 13% in 1956. Only the value figure expresses the true economic impact of competitive imports on the domestic producing industry. This impact can not be measured by relating it to any one domestic product of this industry, since, as we have seen, all of them are sold in the same market.

To sum up, it would appear that an industry whose sales volume and value have grown steadily at a faster rate than either the general economy or the total market (energy consumption) which it serves, in the face of a long-term period of nearly unfettered imports, can not be said to have been economically harmed by such imports. This is borne out still further by the fact that the earnings and assets of this industry have also continued to grow. Furthermore, the domestic producers are not solely dependent on crude oil production for their income but also on gaseous hydrocarbons, the demand for which has been growing at a more rapid rate than that of crude oil.\*

On the other hand, it must be recognized that the existing price differential between foreign and domestic crude oil is very likely to grow in the long run, thus strengthening the incentive to import crude oil. In the indeterminate future, this trend could theoretically lead to an actual decline of domestic hydrocarbon production, in the face of rising market demand. If and when there is clear evidence that such a situation exists, or is imminent, it may be an indication that the level of oil imports has reached the peril

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\* Preliminary figures for 1957 indicate that the rise in the volume of domestic crude oil output was almost nil, compared to 1956, but the rise in value amounted to 11.5%. In the natural gas sector both volume and value increased significantly, the one by 6 and the other by nearly 10 percent.

point at which its economic advantage to our country may be outweighed by the economic damage it is inflicting to one of our major industries. Only at such a point would it be incumbent on the government to propose, or impose, a course of action, based on the realities of the then existing situation.

As of now, all available evidence points in the opposite direction, namely to a continued healthy growth of domestic crude oil production in line with market demand. Thus, an economic peril point is nowhere in sight. Crude oil imports continue therefore to be of net benefit to the national economy, since they provide the U. S. with all the recognized advantages of imports, without impairing the operations of their domestic competitors to an extent which stunts their economic growth.

Our other consideration concerns national security. Here, our task becomes considerably more difficult since, instead of the impersonal facts and figures on which we can base economic conclusions, we must rely largely on hypothesis and speculation. We may console ourselves with the fact that this handicap is characteristic of all strategic planning, since the totally unpredictable elements of secrecy, surprise and accident are major components of all warfare.

National security concerns a nation's ability to meet all challenges from abroad which are aimed at diminishing or destroying its material and spiritual power. The challenge may be aimed directly against home soil or it may involve an attack against a foreign area whose preservation is of economic, strategic or spiritual interest. The weapons used may be physical, economic, psychological or philosophical, or a combination of these. The intensity of the challenge may range all the way from a thermo-nuclear war, which may bring about the extinction of mankind to a "cold war" in which decisive battles are



fought without the firing of a single shot.

Where does the oil industry fit into this definition of national security? The obvious answer is that, since oil accounts for 44 percent of total U. S. energy consumption, it occupies such a vital position that its continued availability must be assured, lest a major segment of our national activity come to a halt. Oil imports help to assure this availability. In 1956, they accounted for 15.5 percent of our total oil demand (incl. exports), or 5.7 percent of our total national energy consumption.

In examining the effect of oil imports on our ability to meet all challenges from abroad, we must again apply the yard stick used throughout this paper: At what level of oil imports are their advantages to our national security outweighed <sup>by</sup> their disadvantages? The two generally accepted beneficial aspects of oil imports on national security concern our foreign trade policy and our resources conservation policy. The first of these applies particularly to the challenge of the cold war, the one type of warfare about which our knowledge is more than speculative, since we have been actively engaged in it since the beginning of this decade. With the polarization of this non-violent war between the Soviet Bloc and the major Western Powers, the main struggle is for the allegiance, or at least the neutralization, of the vast non-committed areas of the world. No weapon is as effective here as that of foreign trade. This has been so fully recognized and so frequently proclaimed by the heads of government in Washington, London, Moscow and Peiping, as well as in the uncommitted areas that we need not restate it here. Suffice it to point out that the President of the U. S. has missed no opportunity in the recent past to call attention to the extreme importance of maintaining a free trade policy in the present world situation.



Such a policy has now become all the more important, since the dollar gap has once again made its appearance in the free world, largely because of the U. S. 's growing export surplus. Since oil is the most important internationally traded commodity, and since the U. S. is the world's largest oil importer, it follows that any serious restrictions of U. S. oil imports would definitely blunt our foreign trade weapon.

The argument that oil imports help conserve our natural resources is based upon the simple fact<sup>that</sup> our underground oil supply is limited. Therefore, the more oil we take out of the ground, the less we will have left in it. Of course, this argument applies not only to oil but to all non-renewable natural resources. However, in the case of coal, for instance, the quantity left in the ground is still so enormous that it would make little sense to start conserving it. On the other hand, our domestic copper and lead reserves are so close to the ultimate recovery point that, by 1975, 56 percent of our copper and 75 percent of our lead needs will have to be covered by imports, according to official forecasts.

How long our oil reserves will last has been a point of unending discussion for several decades now. Agreement exists only on the two extreme positions: they will not last indefinitely and they are not about to give out. There is also agreement on one other point: namely that the rate of net additions to oil reserves has decreased over the last several years. However, there is no agreement on whether the cause of this decline lies in our diminishing oil reserves or in the dis-incentive of oil imports on domestic exploration activities. Whatever the reason, it is certainly true that the nation's oil finding efforts are becoming ever more expensive which must be reflected in domestic oil prices. This is an economic consideration which has a significant national security aspect. If our nation is to be geared to a long-term cold war, as well as the possibility of

a limited nuclear war and also wishes to regain "a balance of terror" in full-scale nuclear war weapons; as a preventive against this final type of war, we must make optimum use of all our resources. Otherwise the burden of our defense effort may become too heavy and our national welfare will be undermined by the cancer of a permanent inflation with its circular effect of making the defense effort even more burdensome. From this point of view, the use of high-cost domestic oil while lower-cost foreign oil is readily available may be considered as being detrimental to national security, in the absence of overriding other factors. A one-third increase in the present price of crude oil would add nearly \$4 billion a year to our current national energy bill, or almost 1 percent to our gross national product. If oil imports can prevent such a rise by forestalling an increase in the number of marginal domestic producers, it will have made a significant contribution to the economics of national security.

What is the possible deterrent effect of oil imports on national security? It could, conceivably, make us so dependent on a foreign supply source that we might become vulnerable to foreign economic or political coercion in a cold war situation, or find ourselves with insufficient energy sources to carry on a limited shooting war.

(The possibility of a world-wide conflagration is not taken into account in this discussion, since most military experts agree that a war of this scale would involve long-range push-button nuclear warfare. The destruction and dislocation of such warfare, in which a single missile has an explosive power equal to all bombs dropped on all belligerents during all of World War II, would be so enormous that the problem of sufficient oil supply would become totally insignificant. Furthermore, if the enemy wanted to deprive us of our oil-producing capacity in this type of all-out war, he would only have to place a



missile into any of our highly concentrated refinery areas - such as the coastal area between Wilmington, Delaware and New York City or between Corpus Christi and New Orleans, and we would be left with an unusable surplus of crude oil. The possibility of such action is enhanced by the Soviet Union's possession of a large number of rocket-carrying submarines who could inflict their damage to coastal areas from underwater positions several hundred miles off shore.

The "conventional" world-wide conflagration, such as we have experienced it twice during the first half of this century, is not expected to recur, according to most military experts, who seem to believe that the "hot" wars of the future will be only of two kinds: limited war fought in restricted areas and for specific objectives, or unlimited nuclear holocaust. The importance of these considerations to our discussion lies both in the fact that it eliminates the consideration of total war from our discussion and that it greatly reduces our ability to utilize the experience of past wars as a guide for any future physical international conflict.)

In evaluating the potential danger of relying on foreign oil supply sources, we must ask ourselves what circumstances would cause us to be cut off from what share of our total oil needs. As we have said, our total oil imports in 1956 were equivalent to 15.5% of our gross oil demand, including exports. The share of the various supplying countries was as follows:

Venezuela & N. W. I.....	62.4%
Other Latin America .....	6.2
Canada .....	8.7
Middle East.....	20.1
Far East .....	2.6
	<hr/> 100.0

We can immediately eliminate Canada, since it can not be classified as a potentially uncertain oil supply source. The possibility that, for political reasons, Canada will refuse to sell us oil just when we



need it most is so remote, given the strong political, economic and spiritual bonds between the U. S. and its northern neighbor, that it can be dismissed for all practical purposes. The possibility that Canada might be prevented by military action from shipping its oil to us is about as great as the possibility that enemy action will prevent Mid-continent crude from reaching the refineries in the Chicago area.

This would limit the discussion to the 1.3 million barrels daily which came in from non-Canadian sources in 1956. About 110,000 b/d of this was used in electric utilities in areas which are also supplied by coal and could therefore switch over to coal almost at once, if necessary. This leaves us with about 1.2 million b/d of total imports. Is it realistic to assume that they would all become unavailable to us at the same moment in anything short of a world-wide nuclear conflagration? The question begs the answer. It is quite conceivable that, at some time, international difficulties might temporarily cut us off from our Middle East supply sources or that Far East supplies will be unavailable for a limited period.

It is also possible, though much less likely, that some future government in power in Venezuela may temporarily withhold that country's oil. But a simultaneous concurrence of all these possibilities could come about only in a world-wide total war in which oil shipments from nearby Venezuela would be no more or less threatened by enemy action than tankers from the Gulf of Texas.

Furthermore, as we have said, in such a war, the availability of oil would not be a significant factor.

But let us make the unreasonably extreme assumption that we are cut off from all non-Canadian oil imports at one and the same time. If this had happened in 1957, our oil industry would have been called upon to fill a maximum gap of 1.3 million b/d of oil. Our present

total productive capacity has been officially rated as amounting to 10.7 million barrels daily (incl. natural gas liquids) while our actual production has averaged 7.9 million B/D during 1957. Thus, we could have increased our production by more than twice as much as our total overseas imports. Even if we assume that the figure of 10.7 million B/D is somewhat over-optimistic, as some industry experts are inclined to think, it is certainly higher than our current gross imports. This does not even take into account the fact that an economy such as ours is normally characterized by a high proportion of non-essential consumption which could easily be reduced by rationing in case of a major national emergency. Furthermore, if we are not able to receive any oil from abroad, we would also not be able to ship any oil abroad and could therefore channel our 320,000 B/D of exports into the domestic economy.

Thus, it is quite clear that at present we are definitely not over-dependend on foreign oil supply sources, from a national security point of view, since we could function at or near our accustomed consumption level even if we lost all overseas supply sources simultaneously. We have been in this position at least since 1951, when the National Petroleum Council made its first study of our total productive capacity. In that year, which was characterized by an unusually high increase in domestic consumption due to the Korean war and an upsurge in exports, accompanied by a decline in imports, due to the shut-down of Iranian oil production, our reserve capacity was still above our net imports (imports minus exports). In all succeeding years, it was above gross imports.

Of course, not all of this reserve capacity could be called forth immediately in an emergency because of inadequate transportation facilities in a number of oil fields. But against this must be

held the fact that our readily available stocks of oil above ground are usually equal to at least 41-42 days of our total domestic oil consumption. This means that we could cover about 12 percent of our oil needs for nearly a year by drawing on our stocks. In the meantime, transportation facilities in the oil fields could undoubtedly be brought up to our productive capacity.

In summary, the U. S. oil industry, as it exists today, is characterized by several important features which make the possibility of an economically, politically or strategically dangerous dependence on any foreign oil supply source extremely remote in the foreseeable future. These features are: (1) the widespread dispersion of our foreign supply sources; (2) a substantial excess crude oil producing capacity which was maintained even in the face of a limited emergency; (3) the level of our above-ground stocks; (4) the high degree of non-essential oil consumption which could be curtailed in a national emergency; (5) our oil exports which could be channeled into the domestic market; and (6) the still low ratio of oil imports to our total oil and oil-competitive energy consumption, making them a relatively small factor in our total supply pattern, of this type of energy.

Since oil imports are demonstrably of no present or imminent danger to our national security, the argument for restricting them obviously hinges on developments in the more distant future. This was apparently the basis on which the President's Special Committee on Crude Oil Imports made its recommendations for voluntary restrictions, since its main justification was the contention that continued unrestricted oil imports would act as a disincentive to further domestic exploration activity and thus cause a future decline in production.



Such a contention could not have been based on historic developments, since the number of wildcats drilled has increased steadily, except for occasional single-year declines, throughout the past twenty years. The annual growth was particularly marked in the postwar period where it was unmarred by a single interruption until 1957. The year 1957 did register the first decline in wildcat drilling since 1942. But the decline was so slight that the number of wildcats drilled was still the second highest on record in U. S. oil producing history.

Statistically speaking, no trend can be established on the basis of a single slight decline from a record high, in the face of a previous 15-year uninterrupted growth period. Furthermore, the cause for the decline can be attributed to any number of factors, including a levelling off in oil demand and a general business decline, both of which took place in 1957.

The domestic producers did receive an additional incentive in 1957 in the form of higher crude oil prices which increased their gross revenues considerably. The fact that drilling activities declined despite this new incentive may well have been due, at least partly, to the producers' decisions to curtail capital expenditures temporarily as a precautionary recession measure, since it is normal for an industry not to increase its producing capacity in a period of stagnating demand.

Thus, no presently available evidence indicates that imports will cause a decline in domestic crude oil production in the foreseeable future. The threat of oil imports to our national security is, therefore, at most of a potential, vague and distant nature. On the other hand, the benefits of oil imports to national security are actual, measurable and immediate. Oil imports restrictions

severely damage these real, current benefits in the name of hypothetical, future ones.

Therefore, the time for the government to take action is only if and when there is clear evidence that the real advantages of oil imports to the national welfare have begun to be outweighed by the real disadvantages to it. Such action, if taken in the light of the then existing political, economic and strategic situation, may well be of a different nature than that now taken on the basis of speculation and guesswork. For restricting imports is only one way, and not necessarily the best, of dealing with the national security problem which may arise out of the growing importation of an essential commodity, in competition with a domestic product.