

Statement of John H. Lichtblau, Research Director,
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Before The Senate Finance Committee of the U. S. Senate

July 30, 1962

MR. CHAIRMAN: My name is John H. Lichtblau. I appear on behalf of the Petroleum Industry Research Foundation, Inc. Our organization is concerned primarily with the interests and problems of oil marketers and consumers located along the U. S. East Coast. Since 38% of all U. S. oil consumed in the 17 East Coast states is of foreign origin, the oil industry in that part of the country has always been directly involved in the problems of foreign trade. We would therefore like to discuss HR 11970, The Trade Expansion Act of 1962, from the viewpoint of this segment of the economy, as we see it.

Nearly all of the several thousand oil refiners and wholesale and retail marketers on the East Coast deal in imported products. It is our understanding, based on direct contacts with many of these companies that the vast majority of them supports the principles contained in the Trade Expansion Act, since these companies are aware of the close interdependence between imports and exports and understand the need for a more liberal U. S. Trade Policy.

Of course, as this committee knows, oil - America's principal import commodity - would not be directly affected by any of the trade liberalizations forseen in the Act under consideration. For the importation of all types of oil is specifically controlled under the National Security Clause of the existing trade legislation. In fact, amendments to the Trade Expansion Act to render oil imports still

more rigid will be proposed to the Senate, as they have been to the House of Representatives. We believe that such amendments are not justifiable because they are not in the national interest.

We grant that there is a justification in principal for the restriction of crude oil imports. Given the present surplus of oil both at home and abroad and the significant cost differential between foreign and domestic oil production, the completely free entry of foreign crude oil could have serious consequences for many domestic oil producers.

However, if we must have restrictions on crude oil ^{imports} /they should be both liberal and flexible. The need for relatively liberal restrictions derives from the fact that it is in the public interest to keep oil prices reasonably low. Oil imports make an important contribution towards this goal, a) by providing a source of lower cost oil to domestic refiners which reduces their total crude oil costs and b) by helping to postpone the replacement of older domestic oil reserves by new ones; since new reserves are now generally costlier than those located in previous periods, the speed with which this process of replacement occurs determines to a large extent the cost of production of domestic oil. For instance, if there had been no crude oil imports in 1961, our proved domestic oil reserves would have had to be nearly 6 billion barrels, or 15%, higher than they actually were, if we wanted to maintain the existing ratio of production to reserves.

Thus, if we want reasonably low energy costs in the U. S. we must permit a reasonable volume of controlled crude oil imports. The present volume of crude and unfinished oil imports east of California equals about 11% of domestic crude oil and gas liquids production. This can hardly be termed unduly high, particularly if we consider

that domestic crude oil and gas liquid production east of California has increased by 2.5% in 1961 and will grow by at least 2% in 1962, according to most forecasts. By comparison, oil imports east of California (exclusive of residual fuel oil) will grow by about 2.9% in 1962, so that the growth rates for imports and domestic production are really not very much apart.

Of course, if we were to compare oil imports and production for the nation as a whole a somewhat different picture would emerge. But this is due entirely to the fact that crude oil production in California is rapidly declining and must be supplemented by a growing level of imports. However, these imports do not displace domestic crude oil. Hence it is misleading to lump oil statistics for the West Coast and the rest of the country together, as is sometimes done for the purpose of dramatizing the magnitude of oil imports.

Besides being liberal, crude oil import restrictions should also be flexible. But, if the imports were to be legally tied to a specific ratio of domestic oil production, as has been proposed, our oil imports policy would become so rigid and unadaptable to changing conditions that it would be more likely to harm our national security than to help it. The proposed amendment would mean that if domestic oil production should ever decline or stagnate for any reason or period, imports would automatically have to follow suit. Yet, just then we may need more imports to offset the decline in domestic output. Thus the only responsible and justifiable oil imports policy is one flexible enough to respond to quickly changing situations.

My comments, so far, apply only to oil imports other than residual fuel oil which is in an entirely different category. For residual fuel oil, unlike crude oil, is in permanently short supply in this country. Hence, we must either import this commodity in growing

quantities or do without it. Domestic oil producers or refiners are not affected by the level of such imports, since residual fuel oil is an unprofitable by-product of domestic refinery operations which does not impair the level of domestic crude oil purchases nor have a measurable impact on refinery profit margins.

Imported residual fuel oil does compete to some extent with domestic coal. But this competition is very limited, since residual fuel oil can not be transported inland at economic rates so that imports must be consumed along the Atlantic Seaboard. Furthermore much imported residual fuel oil is consumed in markets where coal is no longer significant such as space heating and ship bunkering.

Coal mining employment is therefore not affected by residual fuel oil imports. The steady decline of the U. S. coal mining labor force is due entirely to technological improvements in production. Thus in the first six months of 1962 U. S. coal output rose by about 11%. Yet during the same period employment of production workers in the mines declined by some 15,000 to 20,000 men.

Coal is not an industry in dire straits. Its markets are growing primarily as a result of the current and projected vast increases in steam-electric power capacity. The new slurry coal pipelines to the East Coast which will soon be completed are supposed to reduce the laid-down cost of coal at the Atlantic Seaboard by about \$3.00 per ton. This could make the price of coal so low that even imported residual fuel oil (which is not a by-product but the principal product of Caribbean refineries) might find it difficult to compete successfully.

In view of these facts, the restrictions on residual fuel oil imports goes against the very essence of what the Trade Expansion Act of is designed to accomplish. The original error/restricting such imports

should therefore under no circumstances be compounded by making the restriction part of our law.

Oil imports have been charged by some groups with being the principal reason for America's persistent balance of payments deficit. It is of course correct that imports cause an outflow of dollars. But this applies not only to oil but also to automobiles, steel, textiles and all the thousands of other items which go into our 16 billion dollar import bill. Hence to single out oil as the culprit for our balance-of-payments trouble is quite meaningless. Furthermore, this approach ignores the obvious fact that imports engender exports. Without our oil imports such countries as Venezuela, Trinidad, Canada, Indonesia or Iran would not purchase the American goods which have helped to give our country a favorable trade balance in every single post-war year.

In short we believe that no sound reason exists for a further curtailment of oil imports. We therefore urge this committee to pass the Trade Expansion Act of 1962 without any amendments which would adversely affect the importation of oil.
