

Statement of John H. Lichtblau, Research Director,
The Petroleum Industry Research Foundation, Inc.

Before The Ways and Means Committee, U.S. House of Representatives

March 22, 1962

MR. CHAIRMAN: My name is John H. Lichtblau and I appear on behalf of the Petroleum Industry Research Foundation, Inc. Our organization does economic research and publishes information on various subjects affecting the oil industry. Our work has frequently reflected the interests and problems of the oil markets and marketers on the U.S. East Coast. We would, therefore, like to discuss HR-9900, the Trade Expansion Act of 1962, from the viewpoint of this segment of the economy, as we understand it.

We would like to say first that we fully support the principle of more free trade through lower trade barriers which is the cornerstone of HR-9900. We believe this sentiment is generally shared by oil marketers and refiners on the U. S. East Coast, most of whom have a direct interest in foreign trade. For the East Coast, which produces virtually no oil of its own, is by far the most important market for foreign oil. Some 65% of all crude oil and nearly 100% of all fuel oil imported into the U.S. is delivered and consumed in the 17 states along the Atlantic Coast. Hence every refiner, marketer or even consumer of oil on the East Coast relies, directly or indirectly, on foreign supplies for a significant part of his oil needs.

The restrictions on these imports which were imposed in 1959 in the form of mandatory quotas have demonstrably hurt the oil industry and the oil consumer on the East Coast.

To the extent to which these restrictions are truly necessary as a national security measure they must be borne no matter what the burden.

Thus, some form of crude oil imports restrictions are justifiable. For, given the present world-wide surplus of low-cost foreign crude oil, the unlimited importation of this oil might seriously damage the domestic oil producing industry.

However, we understand that some spokesmen for the domestic oil producers are about to request your committee to restrict the level of crude oil imports still further by means of an amendment to the Trade Expansion Act. This, we submit, is not justifiable. In 1961 both domestic and foreign crude oil supply increased by slightly over 2%. The failure of domestic production to increase more was therefore not due to imports but primarily to a totally different factor, namely the continued displacement of crude oil by the rising level of domestic natural gas and natural gas liquids production, both of which are usually supplied by the same companies which also produce crude oil.

I can appreciate the temptation of any domestic producer or manufacturer to gain an increase in sales simply by having the government reduce the supply of competitive imports. But in the case of oil other things are at stake, too, such as the level of U.S. oil prices, the economic welfare of the refiners and marketers on the East Coast and, above all, our commercial relations with friendly foreign countries for several of which the U.S. provides the principal market for oil exports.

According to press reports the coal industry is also preparing an amendment to the Trade Expansion Act. This amendment is reportedly designed to achieve a further reduction in the level of residual fuel oil imports. There is even less justification for this amendment, since imported residual fuel oil does not and cannot significantly compete with domestic coal.

Imported residual oil can only be consumed on the East Coast. The total amount imported into this region has never equalled more than 10% of U.S. coal production. But the great bulk of this oil is consumed in buildings, factories, ships and utilities which are neither able nor willing to burn any other fuel. Only a very small quantity of imported residual oil - no more than six to seven million tons of coal equivalent - compete actively with coal. It is for the protection of coal's share in this marginal market - equal to less than 2% of total U.S. coal production - that the entire import quota system on residual fuel oil has been instituted and is maintained.

In our view the coal industry itself would have more to gain from supporting free trade than protectionism, since it has large markets in the European Common Market, Canada and Japan. The U.S. Government is on shaky ground in asking these countries to remove their impediments to free coal imports which are designed to protect domestic coal production, as long as we pursue that very same policy in our own country. We therefore urge this committee to oppose any amendment to this law designed to impose permanent imports restrictions on residual fuel oil.

In closing I would like to make a brief comment about Section 231 of the Trade Expansion Act - which deals with safeguarding the national security. It is under this provision of the existing Trade Agreement Act that the restrictions on oil imports have been imposed. In June 1961 the Office of Emergency Planning, which is charged by the President with determining whether the importation of a commodity threatens to impair the national security, initiated an inquiry into the problem of residual fuel oil imports. This study has not yet been released or completed. Similarly, a request for decontrol of imports

restrictions on asphaltic crude oil has been under study by the OEP and its predecessor organizations since July 1960. Likewise, an appeal from a previous ruling of the agency on the importation of cordage has been under study since September 1960.

These exceedingly long delays in obtaining action under the national security clause of the existing Trade Agreement Act have surrounded trade in the affected commodity with much uncertainty, thereby causing undue hardship to its importers, domestic producers and foreign exporters. We realize, of course, that the relationship between a commodity's level of imports and the national security is an extremely complex and delicate matter. However, it would seem that such investigations can be completed in less than ten, twelve or twenty months without impairing their quality. We respectfully propose, therefore, that a time limit within which the President is bound to act be put into Paragraph 4 of Section 232 of the Trade Expansion Act.