PIRINC

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In a statement released today the Petroleum Industry Research Foundation, Inc. (PIRINC) took strong issue with a bill to tighten existing residual fuel oil imports restrictions, introduced last Thursday in the Senate and the House of Representatives by a group of coal state legislators.

The bill proposes that U.S. residual fuel oil imports be limited to 50 per cent of the total residual fuel oil consumption east of California in the same quarter of the previous year. In introducing the bill the legislators stated that it was "a fair and reasonable formula to hold imports to a level proportionate to demand".

In PIRINC's view the proposed formula would bring about a steady and progressive reduction in the total availability of residual fuel oil supplies east of California and particularly at the U.S. East Coast where virtually all residual fuel oil imports are consumed. For, as the Research Foundation points out, domestic production of residual fuel oil has been declining regularly for many years. It must therefore be continually augmented by growing levels of imports just to maintain the existing volume of supply.

Since 1957 the decline in production of residual fuel oil east of California (including the use of crude oil as residual oil) has developed as follows:

1957	824,000 b/d
1958	720,000 b/d
1959	690,000 b/d
1960	636,000 b/d
1961	603,000 b/d
1962	557,000 b/d

PIRINC computed the average annual decline over the five-year period as being nearly 10 per cent.

Import quotas have been in existence since April 1, 1959. In the first twelve months they amounted to 429,000 b/d. In the twelve months starting April 1, 1962 quotas were issued for 525,000 b/d. Thus, in these three years imports rose by 96,000 b/d, said PIRINC. During approximately the same three-year period (calendar years 1959 to 1962) domestic production of residual fuel oil east of California declined by 133,000 b/d, so that the rise in imports has not even fully offset the decline in domestic production. This decline has continued at an accelerated rate in the first half of 1963 when domestic production east of California dropped to 545,000 b/d, an 8.3 per cent decrease from the same period of the previous year.

It is obvious from the above figures, PIRINC declared, that any formula which ties the level of imports directly or indirectly to domestic production, as the proposed bill does, can only have one effect: to reduce the total level of available residual fuel oil in each period <u>below</u> that of the comparable previous period. Since it would be unrealistic to assume a reversal of the long-term decline in domestic residual fuel oil production, says PIRINC, the end-result of freezing imports to demand in the manner described in the bill would be the phasing out of the entire billion dollar residual fuel oil business east of California.

It is PIRINC's view that even under existing import restrictions the gap between residual fuel oil demand and supply on the U.S. East Coast must be expected to spread, unless the government takes corrective action. For the number of burning units using this fuel is currently increasing sharply. Thus, several large oil-burning electric utility plants will have been completed by the end of the present quota year (3-31-64) while more are scheduled to start operating during the next quota year. Most of these new plants are not readily equipped to burn other fuels.

The sharp rise in office and apartment building construction is also bound to affect the level of residual fuel oil demand, since from Philadelphia on north most of these buildings can only be heated economically with heavy fuel oil. Finally, there is the sustained high level of activity in the industrial sector, traditionally the most important outlet for residual fuel oil.

The need appears therefore to be for a substantial liberalization of the government's imports policy on residual fuel oil, concluded PIRINC, rather than for a further tightening of quotas. A liberalization would not hurt the coal industry, since only a small share of imported residual fuel oil competes actively with domestic coal. Furthermore, said PIRINC, coal is no longer a sick industry, requiring special governmental protection. As evidence of the health of the coal industry, the Foundation cited the fact that total U.S. coal shipments rose by 5.3 per cent last year and by another 4.2 per cent in the first half of this year.