

Total U.S. crude oil production increased by 750,000 barrels daily from 1959 to 1965. All of this increase was by the "Chase Bank Group" of larger companies whose total production increased by 890,000 barrels per day, or 20.3 percent. The combined production by the thousands of independents actually declined by 140,000 barrels or 5.2 percent from 1959 to 1965.

The independent's share of total U.S. production has dropped from about 38 percent when the oil import program was established, to 32.5 percent in 1965. Despite this trend, the degree of concentration in domestic oil and gas production is very low relative to most other basic industries. However, the deteriorating position of independent producers adversely affects their vital role in the search for, and the development of, the new reserves needed to meet expanding U.S. requirements for oil and gas.

To illustrate further, information on expenditures for exploration and development in the United States are available for the same Chase Bank Group of companies as compared with the expenditures by thousands of independents. Approximately the same total amount was spent by each group in 1952 (\$1.86 billion by the majors and \$1.77 billion by the independents). Both groups substantially increased these expenditures from 1952 to 1957. A drastic change, however, took place from 1957 to 1965. The majors increased exploration and development expenditures over the 1957 level. In contrast, the expenditures by the thousands of independent producers declined sharply by 44 percent from \$2.43 billion in 1957 to \$1.36 billion in 1965.

The facts show clearly that independent producers have not been sharing in the increased domestic oil production and income. Confronted by rising costs and price erosion, the funds and incentives have been progressively reduced for independent producers that have historically assumed the leading role in drilling exploratory wells and finding the new reserves needed for future expansion.

The foregoing analysis has been presented to establish that the entire domestic producing industry is far from healthy and vigorous. Over-all figures for the United States as a whole or for a selected group of larger companies obscure a dangerous and unhealthy situation existing within the industry. As a matter of fact, the reported earnings of all oil companies, large and small, do not reflect the high and increasing replacement costs of finding new petroleum reserves. The largest part of the domestic oil being produced today was found at a small fraction of present discovery costs. Even the Chase Bank Group of companies would appear far less "healthy and vigorous" if their earning statements were based on today's replacement costs.

It is a fact that the domestic producing industry remains in a seriously depressed economic state. While the industry has the technical capabilities to find, develop and produce adequate petroleum supplies to meet national requirements for the foreseeable future, today's economic conditions make it impossible to accomplish what is needed to assure the future growth in keeping with expanded requirements.

Certainly, there are many factors contributing to the economic difficulties that have plagued the industry during the past decade. The fact that imports are not the only factor exerting an adverse impact in no way denies that these imports are an important factor. The experience of the industry under the Mandatory Oil Import Program leaves little doubt that there is a need to do no less than maintain the basic structure of the program, and certainly not to weaken its effectiveness.

The petroleum producing industry by its very nature is a long-term undertaking. From the time exploratory efforts are first begun until reserves are developed, normally requires some three to five years, and very often a much longer period. It is obvious, therefore, that the first prerequisite of the import program, if it is to properly serve its national security objective, is to provide assurance to domestic producers that the program has long-range stability.

APPENDIX D.—ADVERSE ACTIONS TAKEN WITH RESPECT TO THE MANDATORY OIL IMPORT PROGRAM

As summarized below, there has been an increasing number of "special treatments," both within and outside the 12.2 percent limitation.

1. *Production Base for Import Quota*: Proclamation 3541 dated June 10, 1963, revoked the provision that required the maximum level of imports into District I-IV be based on *actual* production during a period, and provided, in lieu thereof, that imports be based on *estimated* future production. *Actual* production is