crisis-related increases in price. But apparently because consumers experienced no adverse results, however, that warning was not as clear as it would otherwise have been. Because the industry gave the impression that it met the 1967 supply problem without undue strain, consumers and government officials have so far failed to recognize the proportions of the crisis which now hangs over our nation and her allies.

The next emergency will not likely be so short-lived or limited in its effect on Free World oil supply. Furthermore, the domestic producing industry is now in its twelfth year of decline in exploration and development activity. In Texas, for example, the industry drilled 56 percent fewer wells in 1967 than it did in 1956. Thus far in 1968, drilling rates are 9.9 percent below the depressed 1967 levels. Each additional year this severe decline in activity is experienced means less reserve capacity to cope with emergencies and steady increase in normal demand.

PROGRAM LIBERALIZATION

One of the main contributing factors to the 12-year decline in domestic oil producer activity has been the attitude of the Administration in administering the Mandatory Program. Throughout the life of the Program, there have been endless changes—beginning with the exemption of Canadian imports from regulation in June 1959 through the current proposal to provide large crude oil bonus quotas for clean fuel processors—virtually all of which have resulted in oil import increases in relation to domestic oil production.

Examples of such administrative change, in addition to the two cited above, include: decontrol of residual fuel; decontrol of asphalt products, creation of Foreign Free Trade zones, and new quotas for the petrochemical industry; provision for special product quotas granted to importing companies that help develop the Caribbean islands; assignment of quotas to those who export petrochemical products; liberalization of distillate fuel quota restrictions for East Coast marketers; and many other minor concessions to non-producing industry segments supposedly deserving subsidies by way of import quota privileges.

All such changes have had an adverse effect upon the non-participating domestic independent producer located in Districts I–IV, who must compete with others benefiting economically from oil imports. Not only is he denied the economic assistance import participation provides, but he also must lose some of his market for domestic crude each time the Program is weakened by change. Yet it is the independent producer who historically accounts for some 85 percent of the nation's oil exploration activity, and it was to protect this function that the import program was insituted in the first place.

There are currently three major changes, either contemplated or already in effect, relating to non-residual fuel imports into Districts I–IV which clearly illustrate the magnitude of this problem. Such imports are supposedly limited to 12.2 percent of domestic oil liquids production in these Districts by the Program. Contrary to what this Committee has been told by Secretary Udall, the 12.2 guideline has not been adhered to, and is not likely to be approached in the future in part because of the three adjustments outlined below.

1. *Canadian Oil Import Regulation.*—Oil imports from Canada are exempt from direct quota limitations on grounds that this oil is relatively more secure than the oil which has to move by ocean-going vessel. Yet these imports are supposedly kept within the 12.2 ratio, which means that at any time imports from Canada increase there has to be a corresponding reduction in imports from some other area. This is all right so long as the Canadian increase doesn't get out of bounds, in which case something has to give; either Venezuela or U.S. producers suffer.

The Department of Interior makes an "estimate" of how much oil they expect during the forthcoming quota period from Canada. Then the remaining portion of imports under the 12.2 ratio are allocated to other source areas. Since the Canadian imports always grow so much more than "estimated," that would mean pinching Venezuela and other source areas in the normal course of events. But to avoid this, Interior officials simply underestimate what the growth of Canadian imports will be each year, so that the effect is to make domestic production pay the price of Canadian excesses. Specific results of this change are as follows:

> In 1963 the Interior Department "estimated" that imports from Canada would be 252,000 barrels per day. But Canadian imports exceeded that level by 13,000 barrels per day.