Basically, the Oil Import Control Program restricts the import of foreign oil into areas east of the Rocky Mountains to 12.2 percent of the consumption, with the remaining 87.8 percent to be supplied by domestic sources.

The program produces, and protects, a difference between the price of U.S. crude oil and the world market price. As a result, oil averages $1.25 per barrel higher in price in the United States than elsewhere in the world. This is a price differential of 3 cents a gallon, or 60 percent above the world price.

The forced usage of domestic crude oil, at its higher price, does not work a hardship on companies in the U.S. energy market. Energy products, such as gasoline and heating oils, while more costly in bulk than foreign products, are sold only in the U.S. and are protected against imports by this same quota program.

But the program poses a clear and present danger for the U.S. petrochemical industry. Petrochemicals are made from oil and natural gas liquids. These raw materials are subject to the Oil Import Control Program and their cost to the chemical industry will inevitably reflect the higher domestic price of petroleum.

The quota-protected price differential for oil—60 percent higher at home—would be critical, if not fatal, in petrochemical production, where in many cases, raw material costs account for more than 50 percent of the cost of the basic products. Furthermore, U.S. petrochemical products have only a shrinking level of tariff protection in the domestic market. Foreign petrochemicals, on the other hand, need no import quotas for their shipments to the U.S. market and are not restricted in their access to the low-cost oil of the Middle East, Africa, and South America.

For these reasons, adequate access to foreign feedstocks is fundamental to the health and growth of the domestic petrochemical industry. This was highlighted by the results of a 1967 Department of Commerce survey of petrochemical producers—involving projections of their operations to 1970.

A great deal is at stake:

1. The continued growth of U.S. exports of petrochemical products. Petrochemical exports currently contribute more than $1.1 billion a year to the nation's balance of trade. These exports will inevitably go the way of the steel industry's exports, but for other reasons, if the burdens of higher raw material costs are added to the adverse effects of the eventual tariff and tax changes.

2. The potential loss of a significant part of the domestic market for petrochemicals—a market whose size by 1972–1975 is estimated at $35 billion. Lower raw material costs combined with lower tariffs will give overseas producers a running start on sales in the U.S. market.

3. The possible outflow of large numbers of jobs and large sums of capital. If the petrochemical industry is unable to remain competitive from plants in the United States, it can only retain its markets by investing in foreign plants. Among many others, this would hurt the very domestic petroleum industry which the Oil Import Program is designed to protect, because overseas plants will not use domestic petroleum, either as a feedstock or as fuel. This possibility is neither remote, nor far-fetched. Since the investment risk in European plants is similar to that in the United States, and since tax rebates on exports are available in Europe, producers there will attract the marginal productive capacity for petrochemicals if competitively priced raw materials are not available in the United States. This additional capacity, along with the excess capacity already forecast for Europe, will be available for sales to third country markets—countries where there is no domestic petrochemical industry. These third country markets are today the fastest growing. They offer the greatest possibility for increased exports from the U.S., if we can compete on equal terms with European and Japanese firms. We cannot compete if domestic raw material prices are 60 percent higher.

These are the clearly foreseeable consequences unless the domestic petrochemical industry is allowed the access to low-cost raw materials which its foreign competitors enjoy.

The question is how can the Oil Import Program be modified to provide the petrochemical industry with the access to foreign raw materials it must have to remain competitive in domestic and foreign markets.

We believe this can, and must, be accomplished without impairing the national security objectives of the Oil Import Program and without damage to the domestic petroleum industry. We recognize the vital importance of the U.S. oil industry and are keenly aware that petrochemical producers cannot hope to solve their critical problem by ignoring the welfare of domestic oil and gas producers.