

as noted above, this is only part of the problem. The new method of distributing import quotas is completely unworkable in terms of any actual solution to the oil import problem.

A. The Auction Scheme Will Produce Competitive Distortions as the Cost Advantage of Foreign Oil Goes to a Fortunate Few, Rather Than Being Shared by All Refiners

The auction scheme will not accomplish the fair distribution of the foreign cost advantage among refiners which, as noted above and as demonstrated by its absence during the period of the voluntary oil import program, is absolutely necessary. Instead import quotas will go to those who bid the most—presumably those companies with the lowest cost foreign oil and refining plants on tidewater. It is obvious that the bids which these companies can make successfully will still leave in their hands a substantial measure of the cost advantage of their foreign oil. With this cost advantage one can expect a return to the situation immediately preceding the Mandatory Oil Import Program when the few companies with the advantage of low cost foreign oil pressed their advantage throughout the national market, depressing the price of domestic crude oil, dampening exploration, and decimating the independent refiner. We have been there before. Why should we return?

Some of the fuzzy thinking behind the imports auction scheme may be based upon the assumption that with competitive bidding for import quotas, the price therefor would tend to rise to the differential between domestic and foreign oil, thus equating the cost of domestic and foreign oil in the United States. There are two serious defects in this assumption. One defect is that in practice such parity will never be realized. Unless there is some substantial cost advantage remaining with the bidder, why should he bid? Look one step beyond—to the nature of the companies who will have the incentive to bid—a handful of major companies with large foreign crude oil holdings. It does not take an antitrust conspiracy to keep the lion's share of the foreign cost advantage in their hands—self-interest alone will lead to restraint in the bidding. The other defect will be discussed under the next heading.

B. The Auction Scheme Will Deny the Inland Refiner Any Share in the Cost Advantage of Foreign Crude. Without a Fair Share in the Cost Advantage of Foreign Oil, Most Refiners Cannot Sustain Present Domestic Crude Oil Prices—So the Auction Scheme Will Fail to Maintain Those Prices

Even if the bid prices equalled the general cost differential between foreign and domestic crude, the auction program will not work. This is because the present important program distributes to *all refiners* a portion of the foreign cost advantage and, under the auction scheme, this cost advantage would be distributed to the Federal Government (and selected refiners) instead. The practical consequences of this change from the present program is that, to that extent, most refiners will be less able to pay the present prices of domestic crude oil.

The sums involved are significant, especially for nonintegrated independent refiners. In the aggregate they are estimated in the hundreds of millions of dollars. The diversion of these vast sums to the government and a few bidders must inevitably be offset elsewhere—by pressure upon domestic crude oil prices, or an increase in product prices, or most likely both.¹¹ If domestic crude prices decline, the program fails. If product prices are increased, the government's anti-inflation program and consumer interests will be dealt a severe blow.

C. The Auction Scheme Will Doom the Graduated Scale

The need for proportionately larger quotas for nonintegrated independent refiners has been noted above. It has been demonstrated to the government and seems to be accepted by the government up to now. The need has been met through the graduated scale.

But the auction scheme must inevitably end the graduated scale. Nor can we conceive of any means by which an adequate substitute for the graduated scale

¹¹ This brings into focus a frequently misunderstood (and more often misrepresented) aspect of the present program—the oft-repeated claim of a “windfall” to inland refiners. It is true that a share of the foreign cost advantage is distributed to inland refiners by the present program (and would be denied them under the auction scheme) but this is no windfall in the sense of an unfair addition to earnings. Instead this is a cardinal feature of the present program which maintains a competitive equality among refiners and which permits the present level of reasonable product prices to be sustained without reduction in domestic crude oil prices. Absent this equality, product prices paid by consumers must increase or domestic crude prices must yield, or both.