

Even more telling is the decline in quota allocations to the twelve refiners located at the Eastern Seaboard. These refiners who are the only ones to process their allocated import quotas in their own plants, saw their allocations cut from 432,000 barrels daily to 279,000 daily between 1960 and 1968, or from 51% to 25% of total imports brought in under the 12.2 ratio.

There are several reasons why refiners in general and East Coast refiners in particular did not participate as a group in the growth of oil imports. The principal ones are a) a substantial increase in shipments from Canada to refiners with plants near the Canadian border, accompanied by reduction of their overseas import licenses; b) the inclusion of petrochemical manufacturers in the Import Control Program; c) the granting of special import quotas to refiners with offshore plants in U.S. possessions and territories and d), in the case of East Coast refiners, the phasing out of historical quotas, based on imports before March, 1959 and their replacement by an input formula which discriminates against large companies such as most East Coast refiners.

The special status of Canadian oil imports has been included in our import regulations since almost the beginning of the Program and is based on our national security requirements. The other three features, however, have little or nothing to do with national security. These features have caused most of the criticism of and loss of confidence in the Interior Department's handling of the Oil Imports Program. For each new inclusion into the Program and each special quota issued under it reduces the quotas available to all other participants. This, in turn, has caused some of these others to seek similar special privileges. The result has been a serious general undermining of the whole Import Program. The Interior Department's oil import policy in this regard seems to be based on a belief that the import quotas represent a federal bounty which the government is free to dole out at its discretion to what it considers deserving parties and causes.

The request for expansion of the Program to non-refiners has by no means come to an end. At the moment the petrochemical industry is arguing for an Import Program for petrochemical feedstock to be kept "separate" from oil imports reaching the U.S. energy market. However, the petrochemical industry's "separate" import quota system includes the provision that petrochemical plants may transfer their import quotas to domestic refiners in exchange for the delivery of domestic petroleum feedstock. The recipient refiners would be free to use these quotas just as they do their own. This obviously makes nonsense of any separate petrochemical Import Program. If the quotas transferred by petrochemical producers to their refiner-suppliers are given within the 12.2% limit, all existing quotas would have to be reduced to make room for the petrochemical industry's quota. If they are given outside the 12.2 limit, more domestic crude oil would be displaced by imports than is presently the case. Either way, the supply of oil for the production of energy products would be affected by this scheme.

The petrochemical industry has originally asked for a share in the Oil Imports Program on grounds of competitive equity with refining companies, many of which produce also petrochemicals. By now the petrochemical industry receives import allocations equivalent to 10% of its feedstock inputs whereas those oil refiners who also have a significant petrochemical production receive on the average import quotas equivalent to only about 4.5% of their total inputs. Under the Chemco plan, forwarded by a group of major petrochemical producers, the industry's input of foreign feedstock would rise to a theoretical 100% by 1972. If this plan is implemented it cannot help but wreck the entire Oil Import Program.

The petrochemical companies contend that they must have access to foreign feedstock to be internationally competitive. If this contention is correct they should be satisfied with import quotas limited to petrochemical feedstock which cannot be exchanged but must be processed in the importer's own plant. Apparently the petrochemical producers are not interested in this type of import quota. Up to now nearly all petrochemical imports have consisted of foreign crude oil which was traded off against domestic feedstock at the standard profit for import quotas of about \$1.25 per barrel. This amounts to a subsidy, paid out of the pockets of the U.S. refining industry. The Interior Department should not increase this subsidy by accepting the Chemco plan in its present form.

We would like to conclude our testimony with some comments on the question of distillate heating oil imports into the U.S. East Coast, a subject which has