

been under active debate since last summer. Since this is a sensitive issue with many different views and non-views, I would like to stress that the views stated here represent only the thinking of PIRINC.

The question of distillate heating oil imports must be related to the availability of supplies during the past heating season. Given the facts that a) the last heating season was 8% colder than normal from September through February, b) that the refinery runs of East Coast plants were below that of the previous year from the end of June 1967 through April 1968 as a consequence of the temporary decline in imports brought about by the Middle East crisis and c) domestic-flag tankers were in short supply due to strategic reasons, it is not surprising that some sporadic local shortages developed in the course of last winter. However, there was no evidence of a general shortage in any East Coast State nor were there complaints from end users of heating oil about inability or even difficulty to obtain supplies. Thus, oil heat suppliers and distributors have weathered a most difficult winter without any hardship to their customers.

At the moment distillate oil inventories are considerably higher than a year ago and the outlook is for adequate supplies to continue. In our view there is no sign whatever of a structural shortage of distillate oil in this country. True, distillate oil yields east of California have shown a modest decline from 22.75% to 22.21% of total refinery runs from 1965 to 1967, reflecting the fact that demand for this product is growing more slowly than for gasoline or jet fuel. But during the same period the volume of distillate fuel oil output east of California has increased from 689,000 barrels daily to 732,000 barrels daily or by 6.2%.

Thus, distillate fuel oil continues to be the second largest product made by domestic refiners. Unlike domestic residual fuel oil, distillate heating oil is neither a by-product of refinery operations nor is it an unprofitable product. Refiners have therefore always geared the supply of this commodity to its demand. There is no reason to assume they will not continue to follow this practice in the future.

However, the next winter could conceivably be even colder than the last one while domestic-flag tankers might again be in short supply for any number of reasons (a fact which would particularly effect New England which is not supplied by long-distance products pipelines and has no local refineries). Any such temporary supply dislocation on the East Coast might create temporary shortages possibly at the peak heating season. The result could be further price increases of distillate heating oil to the detriment of consumers who cannot switch to other fuels and as well as the detriment of independent heating oil marketers whose sales are already under heavy pressure from competing utility fuels.

Despite its recent price increases, distillate fuel oil is still a bargain. In New York and Boston, for instance, it sells now 14% and 18% respectively above the 1957-9 price level, according to the Bureau of Labor Statistics' consumer price index. By comparison, all consumer products and services in the same two cities show an increase of 21% and nearly 22% respectively. But the price gap between distillate fuel oil and natural gas has significantly narrowed in the last two years, a fact which is of major concern to many fuel oil marketers. Future shortages, even of a very temporary nature, might cause it to narrow still further.

Given these circumstances a limited volume of distillate fuel oil imports might be desirable under certain conditions as a balancing item. However, they must be distributed equitably and kept to a minimum in order not to violate a basic tenet of our oil imports policy which holds that as long as imports restrictions are required the U.S. should import crude oil rather than finished products available domestically, in order to maintain a healthy domestic refining industry.

In our opinion the Oil Imports Appeals Board is not the correct agency for allocating such imports, since by its very nature the O.I.A.E. is set up only to distribute import quotas on a special hardship basis. Temporary distillate oil dislocations are likely to affect all marketers in a given area. It would therefore be inequitable to give some of them access to lower-cost foreign distillate oil to offset the dislocation, while others are denied this privilege.

In view of the sharp cost differential between the foreign and domestic product we also doubt the equity of giving permanent import quotas to some marketers of this product while their competitors have to continue to purchase all their