

security objectives and to assure the required stability. The continuous manipulations of proclamations and regulations are threatening its ultimate destruction.

We shall address our remarks primarily to the area east of the Rocky Mountains (District I-IV).

FIRST.—THE LEVEL OF IMPORTS

Based upon careful investigation, it was determined that the level of oil imports (not including residual fuel to be used as fuel) should be 12.2% of the estimated domestic production of crude oil in Districts I-IV. As a result of administrative action, serious departures from this formula have occurred, which have increased imports to volumes in excess of this level. These departures have taken the form of exemptions of certain petroleum products from controls. Moreover, by amendment to the governing President Proclamation, the Secretary of the Interior has been authorized to provide such an exemption for asphalt. An amendment to the regulations recently proposed for comment could create additional overages associated with bonus allocations for production of low-sulphur fuel. We understand that a plan involving bonuses for exports is also under consideration.

SECOND.—INEQUITIES IN ALLOCATION OF CRUDE OIL IMPORTS

Initially, crude oil imported were allocated in a generally equitable manner based upon refinery inputs of crude oil. Some recognition was given to historical import position, under arrangements which called for a gradual phasing out of higher quotas, (other than those for refined products) derived from historical experience. This system of granting quotas creates the medium through which the benefits to holders of the licenses are used to average down the cost of the higher priced domestic crude oil they refine. In this manner domestic crude prices have been supported.

The program was effectively administered in substantial record with this principle until 1965. During that year a large allocation was made to an oil company with respect to refining and petrochemical facilities in Puerto Rico, including permission to import large volumes of finish petroleum products (principally gasoline) into the continental United States. In addition, the petrochemicals made from this low-cost raw material have ready access to the U.S. market. This was for the announced purpose of supporting the Puerto Rican economy. This allocation not only diminished benefits originally intended for the domestic industry, but conferred upon the oil company so favored a significant competitive advantage in the U.S. market.

A dangerous precedent was set, with no end in sight. Thus, a similar special arrangement has been made in the Virgin Islands and additional allocations of the same type have been made to two other oil companies and a chemical company in Puerto Rico this year. Special interest proposals of the same kind are pending with respect to two more Puerto Rican ventures, and others in Guam, the Virgin Islands, and Newfoundland. The volumes involved are of such magnitude that, unless this trend of discriminatory administrative action is reversed, the basic purpose of the program will be subverted, with the result that imports of finished products will be substituted for crude oil. This would mean serious impairment of the capability of the domestic refining industry to supply domestic demand in times of emergency and an excessive dependence upon offshore manufacturing facilities, with grave implications for the national security.

THIRD.—ALLOCATIONS TO THE PETROCHEMICAL INDUSTRY

Beginning in 1966, petrochemical and chemical companies were granted allocations to import crude oil and unfinished oils, based upon the use of domestically produced unfinished oils as feedstocks, thus causing the pyramiding of inputs for purposes of earning crude import allocations. Even though these companies rarely use crude oil as a feedstock they are now enjoying the benefits of crude import allocations out of all proportion to their contribution to the well-being of the domestic petroleum producing industry. This is manifestly unfair to domestic refiners whose import allocations are based upon inputs of domestic crude and clearly impairs the effectiveness of the Oil Import Program in relation to its primary purpose.

Notwithstanding the preferred position already achieved, the chemical industry now seeks, with strong support from the Department of Commerce, unlimited