It would appear that over the last eighteen months the original justification for the Oil Import Program has been lost in a maze created by special interest groups seeking to subvert the interest of the Program to their own special benefits. The authority for the Oil Import Program is derived from a finding by the Office of Civilian Defense Mobilization that crude oil and its principal derivatives were being imported into the United States in amounts which impaired the national security by adversely affecting crude oil production and its derivatives within the United States. The intent of the Oil Import Program was to benefit the domestic crude oil producing segment of the petroleum industry by controlling the overall level of oil imports and by helping to maintain the price for domestic crude oil through a system of quotas which offset the difference between the cost of foreign and domestic oil.

The granting of quotas to inland refiners who receive and exchanged import licenses created a medium through which the benefit of the licenses was used to average down the cost of the higher priced domestic crude oil. This system of exchange has supported the price for domestic crude oil. The proposed auction program will destroy the principal method by which the level of domestic crude oil prices are supported and the price for crude oil will naturally gravitate toward the lowest price level of any crude oil moving into the market.

Few refiners, regardless of size or location, are able to operate profitably on domestic crude oil charged at posted prices. The mechanics may be different but the result is much the same whether it is a seaboard refiner using his low cost foreign oil in his own refinery to average down the cost of domestic oil to his refinery or an inland refiner who exchanges his quota and uses the profit for the same purpose as the seaboard refiner. The coastal refiner who acquires extra import quotas through exchanges in order to refine more foreign oil and less domestic oil is merely reimbursing the inland refiner for processing for him those exchange barrels of higher cost domestic oil.

If the auction system is established, the import program will distribute the entire benefits of import controls to those few companies having large, low cost sources of foreign crude oil. There will be no flow through of benefits to the domestic crude oil producing industry. The foreign crude oil producer with a cost of oil delivered into tankers of less than 10 cents a barrel will have as his cost of crude oil delivered to the United States this minor charge for crude plus tanker charges, taxes in country of origin, and the price paid at the crude oil auction.

It is no accident that since the advent of the Oil Import Program there have been no major reductions in prices for domestic crude oil. A material deterioration in the price for domestic crude oil would have occurred had conditions continued as they were prior to the Oil Import Program with a concentration of the right to import in the hands of a few large, low cost foreign producers.

We are convinced that the proposed auction system would subvert the original intention of the Oil Import Program so as to remove it from the scope of the legislation upon which it is based. We have received from leading law firms opinions that without specific legislation from Congress this proposed change cannot be legally placed into effect. Should the auction system be brought into being, we are prepared to give extremely serious consideration to the filing of a suit seeking an injunction to prohibit the Secretary from implementing the program in question.

Aside from the consideraitons mentioned above, there are a number of very practical considerations which would make the auction system practically unworkable.

In addition to the very serious realignment of economics within the industry, quota bidding would likely cause frequent violent upheaval of domestic operations. For example, a large east coast refiner who may have been successful in his previous bid and is the holder of 100,000 barrels per day of import license could during the next bid period be completely shut out. Under these conditions, he would have to renegotiate his entire position, release tankers carrying foreign crude and replace them with American flag tankers, and establish domestic crude supplies to fill the gap. Obviously, this would have an impact throughout the industry and on the supply of any number of other refiners, large and small. Domestic crude postings could be expected to fluctuate widely. Under these conditions, no one would have a secure supply since it would be impossible to enter into crude sales and purchase agreements of any duration longer than the periods between license auctions.

Country of origin quotas would probably be necessary, else Canadian oil would undoubtedly be foreclosed from importation and continuous supplies from other