

STATEMENT BY STANDARD OIL CO. OF CALIFORNIA

OIL IMPORT CONTROLS

Oil import controls were imposed in 1959 as a national security measure under authority of what has since become the Trade Expansion Act of 1962. Standard herewith presents its views on this subject.

In the early 1950's oil imports into the United States, aided by the clear-cut cost advantage of foreign over domestic production, began to accelerate rapidly. Mandatory controls were imposed finally in 1959 to prevent their attaining proportions which would threaten national security by undermining incentives for domestic exploration and production. Standard believes this was wise.

The events of 1967 in the Middle East served to illustrate the importance of the program. The oil supply crisis brought on in the middle of that year by the Arab/Israeli conflict could not have been surmounted had not adequate domestic reserves been available to supplement the reduced flow of oil from the major foreign producing centers. The crisis clearly demonstrated that some restriction on oil imports—in order to stimulate domestic exploration and development—is essential to the national interest.

This does not mean that the program must be administered rigidly and without regard for other desirable objectives such as air and water pollution control. Nor does it mean that every effort to relax controls should necessarily be resisted. There is good reason, for example, to support relaxation of control when it can be demonstrated that a product shortage exists.

It does mean, however, that every administrative policy or contemplated change in policy should be examined closely for possible conflict with the programs' primary purpose.

Considered within this framework, and insofar as the problem is one of establishing overall limits on crude oil and product imports, we think on the whole that the program as constituted today does meet its primary objective.

There is no longer a threat that imports will gain a major share of the domestic market. Almost 90% of the market for crude oil and natural gas liquids in Districts I-IV is reserved to the domestic industry, and in District V imports are permitted only as needed to offset domestic shortages. There is little more that controls can do to protect the incentives needed to encourage domestic exploration and development.

Once the overall level of import control has been decided upon, of course, it becomes necessary to devise an equitable basis for allocation of quotas among eligible importers.

We think the effort here should be to achieve a pattern of allocation paralleling as nearly as possible that which would have existed in the absence of controls. There should be no attempt to interfere with normal competitive forces by conferring advantage on any group. The import control program, after all, is not intended to promote any economic philosophy. It is concerned with national security and security is a function of the overall limits placed on total imports. The connection, if any, between national security and methods of quota allocation is remote.

An area of particular concern to Standard currently is the petrochemical import quota plan. We were among those who opposed its adoption initially. We did not then, nor do we now, believe that petrochemical manufacturers suffered any significant competitive disadvantage in the domestic market under the original oil import control program. Furthermore, we seriously question the assertion that petrochemical exports can be stimulated simply by awarding oil import quota to petrochemical manufacturers. A quota system designed simply to equalize foreign and domestic feedstock costs will not overcome the other economic advantages enjoyed by large-scale plants located abroad near the markets they are intended to serve. We think any expansion of the petrochemical program would be a mistake.

We would suggest finally that the oil import control program be reviewed from time to time to be certain that it is serving the national interest most effectively.