

A REPORT  
of the  
COMMITTEE ON PETROLEUM IMPORTS  
of the  
NATIONAL PETROLEUM COUNCIL  
AS ADOPTED  
JANUARY 26, 1950

HEADQUARTERS OFFICE

Commonwealth Building  
1625 K Street, N. W.

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Washington 6, D. C.

January 26, 1950

Mr. Walter S. Hallanan, Chairman  
National Petroleum Council  
Washington 6, D. C.

Dear Mr. Hallanan:

On October 25, 1949, the Committee of the Council on Petroleum Imports, previously appointed pursuant to the request of the Secretary of the Interior to make a factual study of petroleum imports, including the effect on the domestic industry, the domestic economy and the national security, reported to the Council that on August 25, 1949 the Committee had met and appointed a Statistical Subcommittee to compile and report such petroleum statistics as it deemed necessary for the Committee's use in carrying out its assignment. A copy of the Statistical Subcommittee's report was attached for the consideration of the Council.

It was suggested that if any member of the Council, after study of the information submitted, desired to make suggestions with respect to the form or subject matter to be contained in the report, it would be welcomed. As a result, several suggestions were received by the Committee. Thereafter, a Drafting Subcommittee was appointed, which met in Chicago during the early part of November 1949 and, with the

assistance of a group of economic advisers, prepared a tentative draft of report for consideration of the members of the Drafting Subcommittee. Each member of the Subcommittee was requested to submit to the Chairman of the Drafting Subcommittee, within thirty days, such comments as he might have with respect to the form of or the subject matter contained in the tentative draft. Several members of the Drafting Subcommittee have presented to the Drafting Subcommittee Chairman their views and suggestions.

On January 25th the Committee on Petroleum Imports, together with its Drafting Subcommittee, met in Washington to review its activities and to formulate, if possible, a report to be submitted to the Council.

Many complicated and inter-related problems are involved in the question of petroleum imports and their impact on the domestic industry, the domestic economy and the national security. Recent developments have raised considerations which should be given further study. The Committee refers particularly to the British embargo on petroleum imports from American owned sources announced on December 19, 1949. There are, however, certain tentative conclusions with respect to this new development, bearing upon petroleum imports into the United States, which the Committee believes should be reported to the Council at this time.

#### TOTAL IMPORTS

Recent U. S. Department of Commerce figures for October and November 1949 show total daily average imports of 779,000 bbls. and 726,000 bbls. respectively. Unofficial figures available

indicate approximately 750,000 bbls. per day during the month of December, or an average for the last quarter of 1949 of approximately 752,000 bbls. per day. Total import figures for the last quarter of 1949 represent approximately 471,000 bbls. of crude petroleum, inclusive of approximately 80,000 bbls. of so-called specialty crudes and approximately 281,000 bbls. of residual fuel oil and a slight amount of other products, bringing the daily average of total petroleum imports for the year to 640,000 bbls. per day.

#### IMPACT OF RESIDUAL FUEL OIL IMPORTS

The Committee recognizes that imports of residual or heavy fuel oils have supplied, over a long period, a substantial part of the market for this product along the Atlantic Seaboard and that they have an established place in the industry's operations. The Committee also finds that during the years 1948 and 1949 expanding markets for heavy residual oils in the North Atlantic and New England States, which have been supplied in a large part by residual imports, might not have been supplied by the domestic industry in the absence of such imports.

To the extent that such imports supplemented the ability of the domestic industry to supply this market and the extent to which such imports supplemented coal and other fuels in short supply for industrial purposes, it is believed that such imports constituted a contribution to both the national economy and the national security.

To the extent that such imports may have restricted or depressed domestic refiners' market for residual fuel oils or restricted or depressed the market for domestic crude oils from which such fuel might have been derived, it must be recognized that residual imports have an adverse impact upon these segments of the domestic petroleum industry.

IMPACT OF PETROLEUM IMPORTS

The National Petroleum Council Committee on Crude Petroleum Reserve Capacity has found that for the year 1949 the domestic industry had available a total average maximum efficient rate of production of crude petroleum and natural gas liquids of 6,300,000 bbls. per day. Since the actual daily average domestic production of crude petroleum and natural gas liquids averaged 5,468,000 bbls. per day, it follows that if the domestic industry could have sustained a maximum efficient rate of 6,300,000 bbls. per day, it produced an average of 832,000 bbls. per day less than it could have produced on the basis of such maximum efficient rate. The Committee finds that the domestic industry had a productive capacity greater than the total 1949 U. S. and export demand. Obviously, the importation of crude petroleum that was competitive with crude oil produced in the United States had an adverse economic impact on domestic oil production to the extent that such imports supplied markets which could have been supplied by domestic producers. The Committee calls to the Council's attention the findings of the Bureau of Mines, made public on January 1, 1950 as follows:

"Production of crude petroleum in 1949 was 8% less than in 1948, amounting to 1.8 billion barrels. This decline reflected (1) a break in the rise of increased demand for petroleum products characteristic of recent years, (2) increased imports of foreign oil, and (3) discontinuation of large additions to stocks."

Much historical and explanatory data on the problem of petroleum imports has been assembled and digested. A study of these data leads this Committee to the conclusion that:

1. The sharp increase in imports of crude oil and its products coupled with the continuing decline in exports of crude oil and its products has hurt the domestic oil industry.
2. If imports continue to increase without regard to the principle of only supplementing the domestic production of crude and products - they will seriously damage the oil industry and thus adversely affect the national economy and the national security.

For the domestic producing branch of the petroleum industry, when imports supply a part of the market which might otherwise be supplied by domestic production or diminish the total value of domestic crude oil, imports naturally appear undesirable. It is difficult to demonstrate at what point imports cease to provide only proper assistance in building a reasonable amount of domestic productive capacity in excess of market demand and within maximum efficient rates and act instead to so restrict the market for or

diminish the total value of domestic crude oil as to curtail the rate of discovery and development of new oil fields in this country.

It is the Committee's belief that although there was no substantial overall curtailment in drilling in 1949, this is because of drilling programs inaugurated before the income of producers had been curtailed by continued reduction of allowables by State regulatory bodies in order to prevent waste and because of the additional availability of steel in 1949. Budget allocations had been made for the carrying out of these drilling programs and in many instances producers had accrued legal obligations requiring drilling.

There was, during the course of 1949, a steady decline in geophysical exploration, which may logically be expected to result in a decline in the number of wildcat wells to be drilled.

Based on industry experience, a decline in the number of exploratory wells causes a decline in the discovery of new petroleum reserves within the United States. Such results have an adverse impact upon the producing branch of the domestic industry by reducing the amount and value of petroleum produced in the United States and causing unemployment of personnel engaged in this activity. Constantly increasing petroleum imports are inimical to the national security whenever they restrict and interfere with the domestic industry's ability to make available petroleum from domestic sources to meet the needs of this nation.

Turning to the effect of imports upon other branches of the

American petroleum industry, such imports may appear either desirable or undesirable to domestic refiners - desirable if imports provide additional supplies of crude oil which permit an expansion of their total markets - undesirable if such imports consist of petroleum products which tend to restrict the rate of domestic refining. For those engaged in the marketing of petroleum products, imports - whether of crude oil or products - are likely to appear attractive whenever such imports provide additional markets because of increased supplies.

The Committee recognizes that the participation of the United States nationals in the development of world oil resources is in the interest of all nations and an essential factor in our national security. Oil from abroad is required by the United States, both for the purpose of supplementing our domestic supplies and supplying our offshore requirements. Petroleum imports are a factor in the national economy and the national security and the Committee does not wish to even imply that petroleum imports of American nationals should be arbitrarily excluded or not permitted to compete on equal and competitive terms with the domestic petroleum industry. Likewise, petroleum imports by companies owned, in whole or in part, by nationals of foreign countries should not be excluded or discriminated against so long as the same rights are accorded American nationals within the areas controlled by the country of such foreign nationals.

POSITION OF AMERICAN OIL INDUSTRY AS AFFECTED BY THE RELATIONSHIPS BETWEEN STERLING AND DOLLAR AREAS OF THE WORLD

No analysis of petroleum imports into and exports from the United States, and their possible effects upon the domestic industry, economy and security of this country, would be complete without reference to British Government trade and exchange control practices which are eliminating American oil companies from the international oil trade. These practices, initiated under the guise of "saving" British foreign exchange resources, now appear to be actually designed to obtain long-term commercial advantages for the British and British-Dutch oil companies at the expense of the American industry.

The data indicate that the British and British-Dutch oil companies are, and propose to continue, expanding their facilities to produce and refine oil in amounts substantially in excess of the amounts they could reasonably expect to sell on a competitive basis. All oil produced by the British and British-Dutch companies which they cannot sell on a competitive basis the British Government characterizes as "surplus oil". This "surplus oil" is created even though the new facilities to produce the oil duplicate existing facilities owned by American oil companies and thus waste British and, through the Marshall Plan, American economic resources; and even though this forced production of "surplus oil" can be marketed only by trade and exchange control discrimination by the British Government.

These discriminations are accomplished by the British Government arbitrarily classifying as "sterling oil" all oil produced

or marketed by British and British-Dutch companies, and as "dollar oil" all oil produced or marketed by American companies. The British Government then refuses to license the import of "dollar oil" when "surplus sterling oil" is available and refuses to permit American oil companies to sell their oil even though they are willing to accept sterling and not dollars in payment.

The British policies, if continued, could compel the petroleum industry of this nation to surrender the international oil trade to the British, because the dollar markets of the United States could not possibly absorb sufficient imports to satisfy the concession obligations of the American owned foreign concessions, without demoralizing the domestic industry with consequent serious injury to the domestic economy and national security.

The Committee finds that participation by American nationals in the development of world oil resources is in the interests of the United States and of all nations. The Committee believes that, in the present situation, the United States Government should take steps to permit American oil companies to compete in the international oil trade free of the unsurmountable obstacles presented by the present trade and exchange control discriminations being arbitrarily imposed by the British Government.

Respectfully submitted,

*Frank M. Porter*

Chairman, National Petroleum Council  
Committee on Petroleum Imports

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