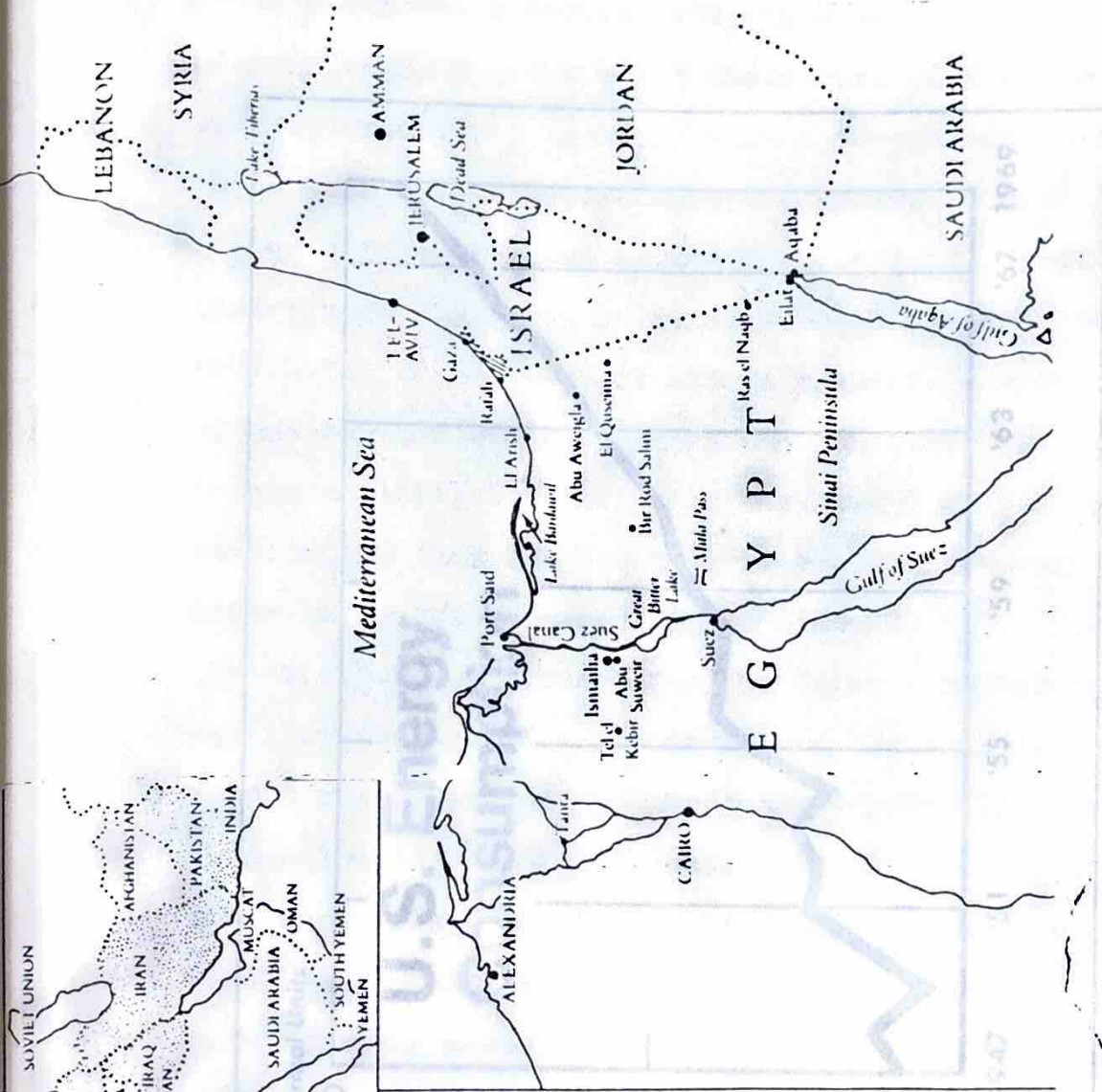
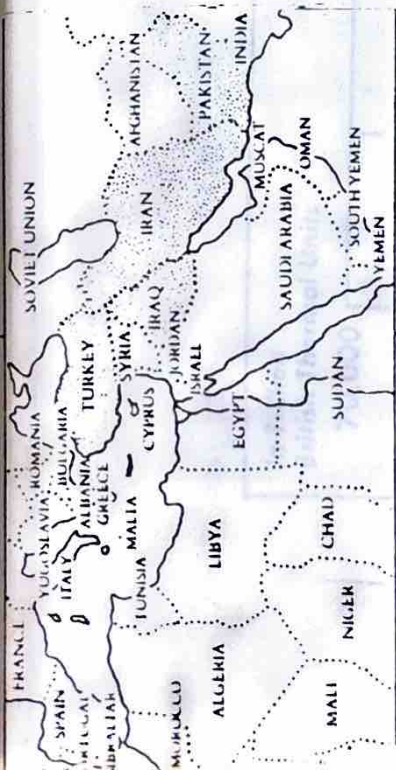
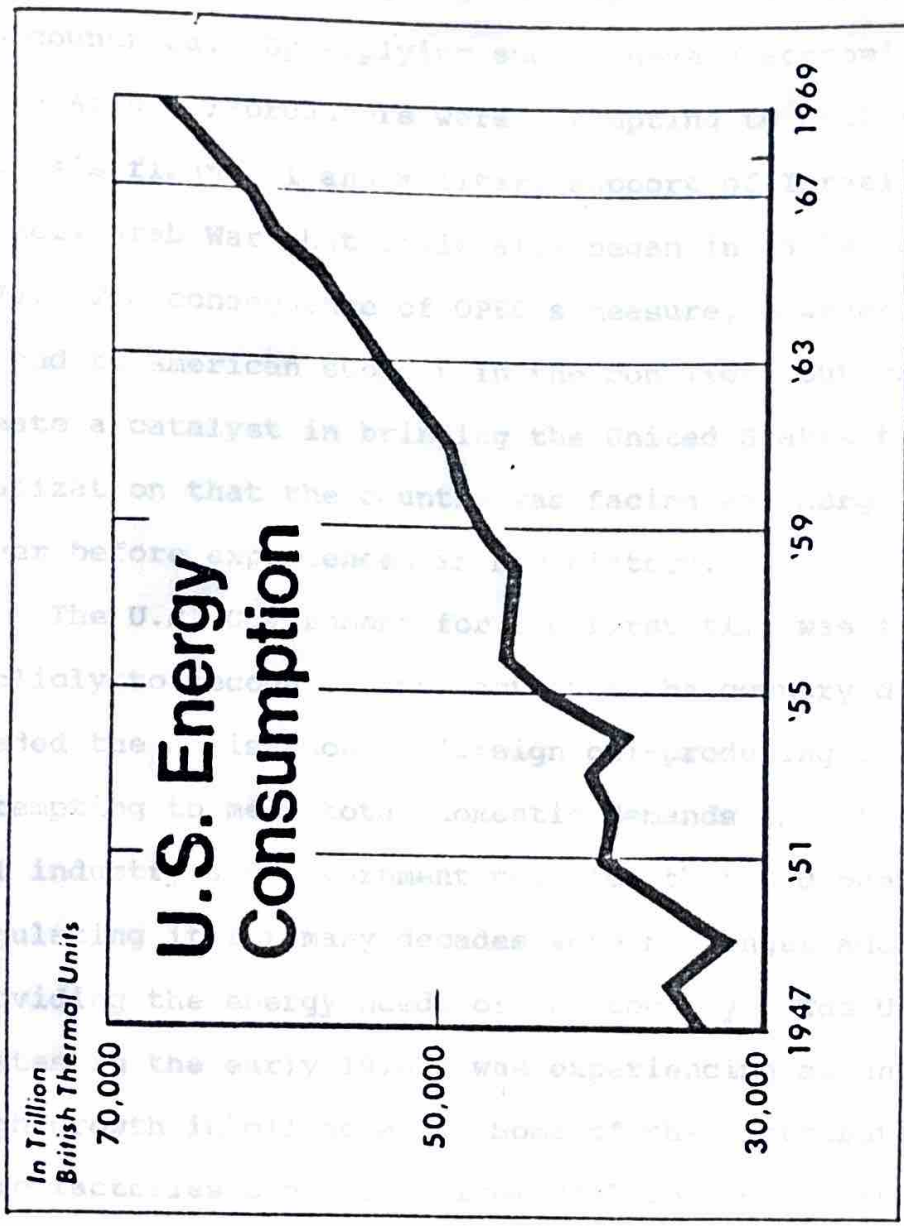






On October 19, 1973, members of the Organization of the Petroleum Exporting Countries (OPEC), Saudi Arabia, Iran, Kuwait, Iraq, Qatar and the United Arab Emirates to name a few, launched a political attack on the United States and the Netherlands and thereby all of western Europe, since the Netherlands was a central staging country in the importation of petroleum, by embargoing the export of their oil to these two countries. By applying such a severe economic policy, these Arab oil-producers were attempting to halt the United States's financial and military support of Israel in the Israeli-Arab War that officially began in early October of 1973. The consequence of OPEC's measure, however, was not an end to American support in the conflict, but rather to create a catalyst in bringing the United States to the realization that the country was facing an energy crisis never before experienced in her history.

The U.S. Government for the first time was forced publicly to recognize the fact that the country desperately needed the assistance of foreign oil-producing countries in attempting to meet total domestic demands on petroleum. The oil industry and government policies that had been regulating it for many decades were no longer adequate in providing the energy needs of the country. The United States in the early 1970's was experiencing an unexpectedly high growth in oil demand. Some of the contributing factors were factories converting from coal to the burning of oil to

run their machinery, as well as the continual building and driving of automobiles that were not fuel efficient.

As the American Association for the Advancement of science reported, "the automobile accounts for 21 per cent of total U.S. energy consumption, yet the standard American car gets only 12 miles per gallon of gasoline."¹ The sudden surge of demand coupled with the embargo left the oil industry in such a weak position that it could not efficiently respond. This created a serious gap between the supply and demand of petroleum. It illustrated to both government and industry that the present means of managing petroleum required new attention. By briefly examining the years prior to the embargo we may understand how the run on demand and the oil industry's regulating policies led to a shortage in fuel for the nation. This, in turn, may direct our attention to reasons why the oil embargo had such a dramatic affect on the whole of the United States.

The fuel shortage that began in the early nineteen-seventies originated from a demand on residual oil that oil refineries could not meet. Residual oil, as the name implies, is that which is left over after the refining process has removed the lighter, more profitable oils and gasoline from crude oil.² The reason for the use of such an oil is that it has good combustion and burning capacity, which makes it an ideal energy fuel for heating big

¹ Associated Press, The World in 1973, (Chicago, 1974), p. 134.

² "Cold Facts about the Fuel Shortage," Consumer Reports, (Feb. 1971), p. 119.

buildings and for generating electricity. In the late forties and early fifties residual oil was roughly twenty-four percent of an oil refinery's output. Over the subsequent years much was invested by the oil industry to produce more specialized petroleum products. The result was that by 1970-71 residual oil was reduced to seven percent of the typical refinery's output. This was not then seen as a problem, since the growth of residual fuel oil consumption in the United States was stabilized at approximately two percent per year. At this rate, imported "resid" arriving at the United States east coast, plus domestic production, was more than sufficient to meet U.S. demand.³

Under such favorable conditions refineries in the late sixties and early seventies put more emphasis on heavier refined products such as gasoline and jet fuels, which had a higher demand. Unfortunately for the oil industry and the country as a whole, there were events and policies that created an immediate and significant dependency on oil, especially residual oil. These circumstances are what helped produce the energy gap previously mentioned. Before proceeding, it is important to note that the four major sources of energy - oil, natural gas, coal and uranium for nuclear generators - are considered to be what is called "interchangeable"; that is, that one may be substituted by another in providing factories and business with the required energy to run their operations. As may be

³ Frank N. Ikard, "The Energy Gap: A Search for solutions," (Winter 1971), Petroleum Today, p. 18.

rationally deduced, a shortage of one fuel source will increase the demand for the other fuels. If all four sources are in short supply a general shortage may occur.

The beginning of the energy gap may be traced to policies established by the Atomic Energy Commission.* In the early 1960's the Commission began to sell to the nation the idea that nuclear fuel would be the panacea for the country's energy needs. The "appeal to nuclear" came from the promise of a clean, economical, and almost limitless supply of energy. Unfortunately, the high expectations that were put forth by the Commission came crashing down with quick and unforeseen circumstances. Communities in which modern plants were scheduled to be built organized strong public opposition for fear of nuclear radiation. This outpouring of public protest hampered and in some cases canceled the construction of these plants. Other burdensome factors were serious underestimates as to the expense of nuclear generating plants. Private funds to finance the costs were so difficult to obtain that heavy government subsidies were required. A summation of the problems facing this "cure all" energy source can be best illustrated by an example provided by Charles F. Luce, chairman of the board

* The Atomic Energy Commission was established by the Atomic Energy Act of 1946. It has been established to provide and administer programs and to encourage private participation in such programs for research and development, international cooperation, production of atomic energy and special nuclear materials. The Commission has responsibility to protect the health and safety of the public and to regulate the control and use of source, by-product and special nuclear materials.

and chief executive of Consolidated Edison Company New York - at this time one of the largest private utilities in the United States. In an interview conducted in 1970 with U.S. News and World Report Luce stated, "we are trying to complete two large nuclear generating plants at Indian Point on the Hudson River. One of these is already a year and a half late and won't be completed before next summer. The other is also expected to be at least two years late."⁴

When asked what he saw as the causes he replied, "nuclear generators involve an advance in technology, so there are problems of design and manufacture that weren't foreseen . . . other major reasons for these long delays: disputes among the craft unions over the question of which has jurisdiction over the various kinds of construction. The jurisdictional lines are well known among the unions for conventional power plants, but not for nuclear plants. Another series of problems concerns licensing procedures. Work on one of our Indian Point nuclear plants had to be shut down for nearly three months last year because a group of citizens objected to the granting of a construction license by the Atomic Energy Commission . . . Their main complaint is over the low-level radioactivity emitted from atomic power plants."⁵ Examples like this

⁴ A Power-Short Winter, U.S. News and World Report, Nov. 9, 1970, pg. 39.

⁵ Ibid, pg. 39.

clearly present how complications inhibited the growth of nuclear power. One statistic from a leading petroleum magazine showed that sixty-five nuclear power plants had been scheduled for operation between 1970 and 1976. Of this total a little less than half, twenty-three, have been delayed.⁷ Regardless of the dilemmas faced by nuclear power, the promise that it held, nonetheless, created adverse situations for the other energy sources, particularly coal.

Coal had been the principal energy fuel for the United States since the beginning of the Industrial Revolution, which began in the latter half of the nineteenth century. In fact, the appealing characteristics of coal, its abundance, cheap cost and fine burning qualities, were what helped fuel the Industrial Age. The result was that coal became the main fuel source in providing the United States with sufficient energy. Even when petroleum began to become important as an energy fuel in the first few decades of the twentieth century, coal retained a favorable production position. According to a report by the President of the American Petroleum Institute, Frank N. Ikard, "it was not until the late 1950's and early 1960's that coal production began to decrease. A major factor in this decline was the over-optimistic government projection of the role of nuclear energy. Investors began to turn their backs on coal producers. According to the

6 "The Energy Gap: A Search for Solutions," p. 15.

National Coal Association, 'From then on, the coal industry was subjected to a barrage of adverse comment which led many people to feel that coal had no future. Investors were no longer interested in advancing large sums necessary to open new coal mines.'"⁸

Another factor that caused havoc within the coal industry was the new complex environmental laws passed by public authorities across the country. These new laws, which were advocated by environmental groups, called for a decrease or outright restriction on emissions of sulfur dioxide. To be burned, coal was to have less than one percent sulfur dioxide content, otherwise, its use would be outlawed. This action produced a new demand for low sulfur coal, which was hard to obtain because of the difficulties in extracting sulfur from the coal. The consequence was that some communities were forced to stop burning coal. This adversely affected local industries by pressuring them to switch to new fuel sources for their energy needs.

With the capabilities of coal temporarily restrained

"many manufactures and power companies might have converted to clean-burning natural gas, had it, too, not have been in short supply. The major oil companies, which dominated the natural gas industry, claim that the gas shortage results from

unrealistically low prices set by the Federal Power Commission in wholesale transactions in electric power and natural gas. 8 "Cold Facts about the Fuel Shortage," *Consumer Reports*, (Feb. 1971), p. 119.

9 "The Arab Oil Crisis: The June 1967 War," edited by Hal 7 Ibid, p. 14.

Commission.* The industry says it just doesn't pay to search for and develop new supplies."⁸

The Federal Power commission was granted the power to regulate the well-head price of natural gas in a 1954 United States Supreme Court decision. Since that time, gas prices have remained relatively constant, while the production costs have soared. This cost increase hampered any chance of investors putting their capital into natural gas ventures, the net result being a dramatic reduction in its supply. Unfortunately, this was not the only problem facing natural gas. Due to the Commission's willingness to provide the country with an inexpensive source of energy, the demand for gas skyrocketed. Without adequate supplies industries were left with one last alternative, petroleum.

Petroleum, however, was plagued with similar problems that affected its ability to meet domestic demands. The first major blow to the supply of oil came in 1967 with the closing of the Suez Canal. The main cause for such action rested with the six-day Arab-Israeli War of 1967. The outbreak of hostilities began June 5 when "according to the Israeli version of events, radar screens indicated . . . that Egyptian planes were headed toward Israeli's mediterranean coast."⁹ The Israelis counter-attacked with

* The Federal Power Commission is an independent agency operating under the Federal Power Act. The Commission regulates the rates and other aspects of interstate wholesale transactions in electric power and natural gas.

⁸ "Cold Facts about the Fuel Shortage," Consumer Reports, (Feb. 1971), p. 119.

⁹ "Israel and the Arabs: The June 1967 War," edited by Hal Kosut, Facts on File, 1968, p. 66.

massive air strikes on Egyptian airfields. The war ended six days after this initial confrontation with Egyptian forces suffering the heaviest casualties. Prior to the conflict's termination the United Arab Republic, led by Colonel Gamal Abdel Nasser of Egypt, closed the Suez Canal to all shipping after charging that U.S. planes had joined Israeli forces in the war against the Arabs.

In further retaliation against Washington for its alleged military support of Israel, Kuwait and Iraq announced the suspension of all oil shipments to the United States.¹⁰ The halting of the oil had its obvious effects, while the closure of the canal may require some explanation. Before commencing one may need a brief reminder on the geography of the Middle East (see map). In order for petroleum to reach foreign markets from this region it must be transported via large ocean tankers. From a logistical and economic viewpoint the best means by which to facilitate the flow of oil would be to have it shipped through the Mediterranean Sea, hence, the importance of the canal. Without the canal, ocean tankers would be forced to pass around the Cape of Good Hope at the southern tip of Africa, an estimated six times longer in travel time. With the canal closed other ways of shipping oil became necessary. The American-owned Trans-Arabian pipeline Company, which transported 450,000 barrels of Saudi Arabian oil a day to the Mediterranean coast was one viable option. The

¹⁰ Ibid, pg. 85. May 6, 1970.

pipeline, unfortunately, was damaged in May of 1970 when a bulldozer hit it accidentally in the Dera region, near the Syrian-Jordanian border. The Syrian government refused to have repair work done on the damage in an apparent protest to the United States's intervention in the Middle East affairs.¹¹ With access to the mediterranean severed, the only possible option that remained was for oil tankers to carry the crude oil around the Cape of Good Hope. During this time, however, there was an insufficient amount of tankers to erase the gap in deliveries created by the extended travel route around South Africa. Without adequate supplies in petroleum refineries in the United States were unable to produce enough residual oil to fuel the major power and heat utilities, factories, and buildings of America. The Government's solution was to import more quantities of resid. Venezuela had been the United States's main supplier of resid for many years, but when the moment came to increase imports Venezuela had reduced for security reasons its production of petroleum. This left the United States without a sufficient supplier of a fuel most responsible for providing the basic energy needs of the country. Foreign circumstances coupled with a weak domestic petroleum industry that could not respond quickly enough to the unforeseen world situations severely hampered the oil industry's ability to supply residual oil and for that

was 1,140 thousand barrels and zero barrels. In 1971 the

¹² DeGolyer and MacNaughton, *Twentieth Century Petroleum*

¹¹ New York Times, May 6, 1970.

matter crude oil itself to meet the United States energy needs.

The petroleum industry in the 1950's adopted a policy that they would import more residual oil and concentrate on the larger domestic demands for other oil refined derivatives - i.e. gasoline and jet fuel. The reason such a policy was incorporated into the agenda of the oil industry was that gasoline and jet fuel provided larger profits. They arose from a greater demand for these two oil derivatives than existed for residual oil. This demand was on the rise due to advancements in technology. Automobiles in the 1950's consumed huge amounts of gasoline because they had new large non-fuel efficient engines. In the 1950's commercial jet airlines were also beginning to shuttle people all across the country. These giant airplanes required a special aviation fuel that was a unique high-quality blend of other oil refined fuels.

With a larger profit share to be made in gasoline and jet fuel, the oil industry turned their attention to refining more of these oil derivatives. For example, in 1951 domestic oil refineries produced 470 thousand barrels of residual oil and imported 119 thousand barrels. Twenty years later in 1971 the figures were: 274 thousand barrels and imports were 578 thousand barrels.¹² With respect to gasoline and jet fuel domestic oil refinery output in 1951 was 1,140 thousand barrels and zero barrels. In 1971 the

¹² DeGolyer and MacNaughton, Twentieth Century Petroleum Statistics, (Texas, 1972), p. 55.

figures were: 2,202 thousand barrels of gasoline and 304 thousand barrels of jet fuel.¹³ The petroleum industry was, thus, doing very well in 1970. It generated large profits from gasoline and jet fuel sales while supplying enough residual oil through imports to meet domestic demand. This scenario changed, however, in 1971-1972 when Venezuela and the rest of the major world oil producers decided to cut back on their production of crude oil.

The world price of crude oil had been relatively stable for the decade between 1960 and 1970. In 1960 a barrel of crude oil on the world market was \$2.47. By the first quarter of 1970, it had decreased \$.23 to \$2.24.¹⁴ In June of 1970, however, the price jumped to \$3.14, a \$.95 increase. Two factors that contributed to this rise were the May 1970 closure of the Trans-Arabian Pipeline by Syria, and the Libyan government's decision to cut back production. The purpose of such action was to pressure the oil companies that operated in Libya to agree to higher payments to the government. Concessions were what an oil company working in a foreign country would pay it for the rights to produce their oil. The oil companies agreed to higher payments because all that was needed to offset them was to increase per-barrel prices. This was exactly what they did at the end of 1970 and throughout 1971. The price of oil increased to where it more than covered concessions.

¹³ Ibid, p. 42.

¹⁴ Morris A. Adelman, The World Petroleum Market, (The Johns Hopkins University Press, Baltimore, 1972), p. 173.

With higher oil prices, attitudes among world oil producers changed. Petroleum in 1970 and 1971 had become a "precious" commodity in the sense that it was now very valuable. Like any item that carries a high price, the more of it one initially owns the larger that individual's personal worth becomes. This was precisely how the world oil producers felt towards petroleum. If they were going to benefit from higher oil prices they wanted to have as much in reserve as possible. To protect their reserves, world oil producers from 1970 to 1972 cut back on their production of petroleum. This security measure was why Venezuela cut back on its production of crude oil, especially residual oil. Under such circumstances the United States between 1970 and 1973 was left with a very sticky situation.

Due to unforeseen events - - closure of the Trans-American pipeline, the oil industry's policy of relying on Venezuelan imports of residual oil, and its miscalculations (over-reacting on the predictions that nuclear energy would serve as the ultimate energy source) - - the petroleum industry of the United States could no longer adequately supply the energy necessary for the people of the United States. The result was a fuel shortage in the United States between 1970 and 1973. To offset the shortage the United States government began adopting conservation policies. For example, people were asked to lower their thermostats as well as reduce their driving speed to fifty-five miles an hour. While the country was trying to adjust to its new

adverse situation, the U.S. government was working to solve the problems of the petroleum industry.

It had been regulated for many years by a mandatory import control quota. It was established in 1959 serving as the main device for protecting the domestic oil industry from cheap foreign oil. It was also perceived as a means for protecting national security. As the gap widened in the late 1960's and early 1970's between the amount of energy the United States produced and the quantity it consumed, the policy of restricting petroleum imports to protect the domestic oil producers began to come under serious scrutiny. In 1973 the mandatory import quota program was officially abandoned for a less restrictive policy on imports. To understand the workings of the quota, one must glance back into its short history.

In 1954 the issue over foreign imports of oil had become a serious problem in the United States. Importation of foreign oil had been controlled by five major oil companies, commonly referred to as the "majors." They included the Exxon Corporation (originally Standard Oil Company of New Jersey), Mobil Oil Company, Standard Oil Company of California (SoCal), Texaco and Gulf Oil. These five, in addition to two foreign oil companies, British Petroleum and Shell (of Royal Dutch origin) together created the "Seven Sisters." The Seven Sisters had each developed into an integrated oil company. Each owned its own means of production, transportation, distribution and marketing.

With their own fleets of tankers, they operated across the world in every sector of the industry. They were involved in the 'upstream' business of drilling and producing at the oilfields, to the 'downstream' activity of distributing and selling at the factories or pumps. By the 1930's each company had become self-sufficient at both ends, so that their oil could flow from their oil fields into their tankers through their refineries and out of their filling stations. It was this integration that characterized the majors.¹⁵

In 1950 the majors controlled virtually all of the known oil reserves in the less developed regions of the world, and a large share of the reserves in the developed countries.¹⁶ Most of these reserves were found in either Middle Eastern countries such as Saudi Arabia, Iran, Iraq, and Kuwait or in Venezuela. To allow for oil production in any one of these countries contractual arrangements were made between the majors and the host country. The arrangements were based on what were called concessions. An oil concession was a license to produce oil and was granted by a country to a private individual or corporation. These licenses were agreed upon to extend over a long period of time. Prior to World War II the majors would pay for concessions by making annual royalty payments that

¹⁵ Anthony Sampson, The Seven Sisters, (The Viking Press, New York, 1975), p. 58.

¹⁶ Douglas R. Bohi and Milton Russel, Limiting Oil Imports, (The Johns Hopkins University Press, Baltimore, 1978), p. 21.

guaranteed the host government a specified minimum income. After World War II, however, concession payments changed to a half-an-half formula of equally shared profits between the foreign government and the oil companies.¹⁷

Under such arrangements the five majors of the United States increased their imports between 1950 and 1954. The reason for increased imports were twofold. First, foreign oil had been considerably cheaper to produce and transport to U.S. refineries because of the fact that U.S. domestic oil prices were kept artificially higher. This was accomplished through state prorationing controls. These controls were administered by appointed state oil commissions. Since 1926, for example, Oklahoma oil production had been regulated by the Oklahoma Corporation Commission. In Texas the same had been true since 1927 with the Texas Railroad Commission. There were over thirty state regulatory commissions accross the country. The means of enforcement came from the commissions statutory power. This authority enabled them to halt oil production in their respective states that was in excess of market demand. The purpose of these controls was to restrict domestic production of oil from flooding the oil market and, thus, lowering the price of oil. The second reason for increased imports lay in the nature of United States tax laws. One such law allowed a credit against United States taxes for

¹⁷ James C. Burrows and Thomas A. Domencich, An Analysis of the United States Oil Import Quota, (D.C. Heath and Comp., Mass., 1970), p. 90-91.

concession payments to a foreign government. Essentially, this was an indirect foreign tax credit for payments paid by foreign subsidiaries of American oil companies.¹⁸ Thus, with United States tax laws and higher domestic oil prices, foreign oil became more lucrative to the majors. They, however, were not alone in the business of importing foreign oil. The "independents," those U.S. oil companies that were involved in the production and importation of oil who were not part of the majors, also competed for foreign oil.

Independent oil producers had been investing in foreign oil since before 1954 because state prorationing controls had reduced the amount of allowable oil they could produce per well in the United States. To make up for lost oil production and, therefore, lost revenues, independent producers imported the relatively low cost oil from the Middle East and Venezuela and sold it in the artificially high-priced oil market of the United States. However, as previously mentioned, it was the majors that imported a majority of foreign oil. In 1948, for instance, the five majors in the United States accounted directly or indirectly for over eighty per cent of imports (see table 1).¹⁹ Between 1948 and 1954 this situation changed as the independent producers increased their imports to offset reduced oil production allowables. Within those six years

¹⁸ U.S. Congress, Senate, Committee on Foreign Relations, Subcommittee on Multinational Corporations, Multinational Corporations and United States Foreign Policy, (93rd Congress, 2nd Sess.), Jan. 30, 1974, p. 119.

¹⁹ Edward H. Shaffer, The Oil Import Program of the United States, (Frederick A. Praeger, New York, 1968), p. 17.

independent producers' imports rose 130 per cent while those of the majors went up by only 71 per cent.²⁰

This rise raised the serious question of whether or not to restrict imports to protect national security. This issue was and still is based on the military's ability to perform in the event of an emergency. If this performance was hampered in any way, then national security was considered to be threatened. This was precisely the case with foreign oil. It was believed by those in the U.S. Government during 1954 that if oil imports increased at the rate in which they were headed, then the domestic oil industry would become dependent on foreign oil. Two results could have possibly occurred if this scenario were to unfold. First, the domestic oil industry would be at the mercy of those countries from which it imported oil. Secondly, if the oil industry would be relying on foreign sources it would not spend the time or the money to find new domestic oil reserves, since it already had access to the necessary oil it need to supply the country's energy demands.

The only way to prevent dependency on foreign oil was to encourage oil production buildup through a production incentive of a high priced oil protected from foreign competition.²¹ If oil was priced in the United States to the point where the cost of discovering and producing it were marginal, then the oil industry would have more

²⁰ Ibid, p. 18.

²¹ Limiting Oil Imports, p. 26.

incentive to produce oil in this country than abroad. More precisely, by restricting imports, the demand for domestic crude oil was effectively raised and this higher demand could be satisfied only by a rise in domestic output.²² This was what the United States Government attempted between 1954 and 1959.

On July 30, 1954, President Dwight D. Eisenhower by executive order established an Advisory Committee on Energy Supplies and Resources Policy. The committee's assignment was that by the request of the president it would undertake a study to evaluate all factors pertaining to the continued development of energy supplies and resources and fuels in the United States, with the aim of strengthening the national defense, providing orderly industrial growth, and assuring supplies for our expanding national economy and for any future emergency. The Director of the Office of Defense Mobilization was designated as chairman and the heads of the following agencies served as members: Department of State, Treasury, Defense, Justice, the Interior, Commerce, and Labor.²³ After careful analysis of the import condition the committee released its report to the President on February 26, 1955. The committee concluded: " . . . if the imports of crude and residual oils should exceed significantly the respective proportions that these imports of oil bore to the production of domestic oil in 1954, the

²² Richard B. Mancke, The Failure of U.S. Energy Policy, (Columbia University Press, New York, 1974), p. 89.

²³ The Oil Import Question, pp. 163-164.

domestic fuel situation could be so impaired as to endanger the orderly industrial growth which assures the military and civilian supplies and reserves that are necessary to the national defense" (see Table 3).²⁴ The President adopted the committees' recommendation marking the beginning of the governments' attempts to restrict imports.

The majors and independents, however, were not legally bound to the committees' report. This meant that if the oil industry was to comply with the report it would do so on a "voluntary" basis. Unfortunately for the oil industry and the report this compliance was not to occur.

The domestic oil industry from 1954 to 1956 was experiencing a time of expansion. This was most certain due to the fact that vast opportunities for profits existed within the oil industry. Between 1954 and 1956 the number of new oil companies nearly doubled from eleven to twenty. During these two years the ratio of imports to domestic production also rose from 10.3 per cent to 13.1 per cent.²⁵ In late July 1955, twenty-seven senators primarily from oil producing states wrote the director of the Office of Defense Mobilization stating that it was his responsibility to rectify the situation.

The Trade Agreements Extension Act of 1955 served as the instrument for measuring and monitoring the flow of

²⁴ E. Athony Copp, Regulating Competition in Oil, (Texas A&M University Press, College Station, 1976), p. 76.

²⁵ The Oil Import Program of the United States, p. 20.

imports. It was under this act that the director of O.D.M. had the responsibility of checking imports. Under section 7, subsection (b) it was stated, "whenever the Director of the Office of Defense Mobilization has reason to believe that any article is being imported into the United States in such quantities as to threaten to impair national security, he shall so advise the President."²⁶

The President, in turn, was to take any necessary action in order to adjust the importation of such articles and, thus, eliminate that threat.

Soon after Arthur S. Flemming, director of O.D.M., received the letter from the twenty-seven senators, he began his investigation. Flemming requested from the domestic oil importing companies that all statistics on imports for the first seven months of 1955 and their plans for future imports be made available to him. He also asked for an official statement of policy on imports. By November 1955 Flemming had all the necessary information to conduct an analysis on the oil import situation. He discovered that crude oil imports had increased fifteen per cent during the first seven months of 1955. Domestic crude oil production during this same period increased only five per cent.²⁷ These figures suggested to Flemming that domestic oil importing companies were not adhering to the recommendation

²⁶ United States Statutes at Large, 84th Congress, 1st session, Vol. 69, (United States Government Printing Office, Washington, 1955), p.166.

²⁷ Limiting Oil Imports, p. 29.

made by the Advisory Committee on Energy Supplies in February 1955. The ratio of crude oil imports to domestic production was 10.3 per cent in 1954. For the first seven months of 1955 the ratio had already reached 10 per cent. This was certain to rise because one-half of the oil companies had already gone beyond the ratio for crude, and nearly three-fourths for residual oil.²⁸

Flemming realized that something had to be done to curb imports. Rather than suggest to the President government controls, he contacted the domestic oil importing companies and presented them with an opportunity to arrive at a voluntary program to restrict imports. They had made an effort during 1955 to slow their crude oil imports, but the lure of high profits broke any serious attempts to restrict them.

By 1956 crude oil imports had risen to 13.1 per cent of domestic production. In terms of total petroleum imports (crude oil, residual fuel oil and other oil derivatives) they were 18 per cent of U.S. petroleum production.²⁹ It was apparent by 1956 that the attempts made by Flemming to slow imports failed to have any influence. Just as the director was about to report to the President that oil imports were threatening national security an international event erupted that changed the whole scene.

²⁸ Ibid, p. 29.

²⁹ Richard H. K. Victor, Energy Policy in America since 1945, (Cambridge University Press, 1984), p. 105.

In October 1956 fighting broke out between Israel and Egypt. In the ensuing battle the Suez Canal was closed. The effect on the United States oil industry was not too disruptive. It was fortunate to be in an excess oil stock position at the time of the crisis. This enabled the domestic oil industry to sufficiently meet any reductions of foreign oil to its market. However, in order to continue replacing foreign oil it had to expand domestic oil production.

The absence of foreign oil increased the demand for petroleum both domestically and abroad. The closure of the Suez Canal reduced the flow of oil to Western Europe by sixty per cent.³⁰ To replace this oil deficit Western Europe called upon countries such as Venezuela and the United States. The U.S. oil industry responded by increasing its exports to Europe through expanded oil productions. This situation led to a point in early 1957 where the United States was suddenly exporting more oil than it imported. Expanded domestic oil production, however, set off a conflict between the independents and majors in the United States.

The policy of the majors during this crisis was to increase imports however possible. The meaning was to prevent any significant increase in domestic oil production to meet the crisis. To the majors increased oil productions represented new oil firms. With these "newcomers" control

³⁰ Ibid, p. 106.

by the majors over future domestic oil markets would be lost. By continueing to increase oil imports the majors attempted to protect their future.³¹ The independents, however, desired expanded domestic oil productions, because it meant larger profits.

When the Suez crisis ended in mid-1957 the majors had prevailed. Unfortunately, the majors had out done themselves in holding back domestic production, because data for 1956 imports showed them to have been 13.1 per cent of domestic production. It was estimated that crude oil imports for 1957 were to exceed this ratio. Based on such predictions the director of O.D.M. in March 1957, requested all importing companies to file a letter stating the amounts of oil each planned to import for the last six months of 1957.

When the director of O.D.M., Gordon Grey, received on April 23, 1957, the proposed imports for the last half of 1957, he reported to President Eisenhower that imports had reached such levels as to consider implementing strict import controls. Grey based his report on the fact that domestic oil companies had estimated their imports for the remainder of 1957 to be 1,261,000 barrels a day, or 17.4 per cent of estimated production. This was half a million barrels above the level which would fullfill the earlier goal of a 1954 imports/production ratio.³² The President

31 Limiting Oil Imports, p. 40.

32 Ibid, p. 42.

responded on June 26, 1957, by establishing a Special Cabinet Committee to Investigate Crude Oil Imports.

It was chaired by the Secretary of Commerce and included the Secretary of State, Defense, Treasury, Interior and Labor. Its purpose was "to make an investigation on the presidents' behalf to determine the facts as to whether crude oil was being imported into the United States in such quantities as to threaten to impair national security."³³ A little more than a month after it was created the Cabinet Committee made its report to Eisenhower.

Before submitting its report the Committee considered and rejected three proposals on imports made by the domestic oil industry. The first was the idea of creating a national storage system to stockpile imported oil. This was denied on the basis of impracticality. The second suggestion was to enlarge government participation in exploring for oil reserves. This was viewed as too costly for an already overburdened government. The final proposal was to encourage increased crude oil imports in order to conserve domestic reserves. This was dismissed for its obvious implications.³⁴

On July 29, 1957, the Special Committee recommended to the President a voluntary import control program. Under such a plan all oil companies operating in Districts I-IV*

³³ The Oil Import Question, p. 179.

³⁴ Energy Policy in America since 1945, p. 108.

* Refining activity in the United States is geographically delineated for statistical reporting by the Bureau of Mines' Petroleum Administration for Defense (PAD) districts. It was created in 1950 to organize an efficient means to supply

were to cut back ten percent below their average crude oil imports for the years 1954 to 1956. In order for the small oil importers - classified as those who imported less than 20,000 barrels of oil per day in 1954 - to have the opportunity to participate in the U.S. oil market on a basis more equitable than if the ten percent cut back was applied to them, it was recommended that they be allowed the amounts set forth in the schedules submitted by them to the director of O.D.M. in July 1957.³⁵ District V was to be exempt from the import controls because it was believed imports into this area could not displace domestic production. The ratio between crude oil imports and domestic production was to be fixed at twelve percent. Finally, this voluntary import program was to be administered by the Department of Interior under policy guidance from the Office of Defense Mobilization.³⁶ Eisenhower accepted this report the very same day and, thus, a voluntary import control was implemented.

A few important characteristics of this new import program deserve some attention. First, it applied to crude oil only; residual fuel oil and other unfinished oils did not apply. Second, the administration lacked sanctions for those oil companies who failed to comply. The only real

the fuel requirements of American forces in the Far East during the Korean War. The result was the division of the country into five districts. PAD was abolished in 1954 by executive order, but its policy was maintained.

³⁵ Report to the President of the Special Cabinet Committee to Investigate Crude Oil Imports, reprinted in The Oil Import Question, appendix c-2, pp. 181-190.

³⁶ Ibid, pp. 181-190.

power it had was the threat to institute a mandatory program if this one were to fail. Finally, the system of allocating oil was historical. This meant that past oil companies' imports were to be used as a basis for future oil allocations. Because of these policies, its life was short lived.

In the first year and half of its implementation the five majors, in addition to two other established importers, maintained their imports under the quota limits. This was mainly due to the fact that they benefited from a reasonably stable, non-coercive import program compared with a mandatory one. For the month of December 1957, these importers brought into the United States 420,400 barrels of oil a day, and planned an average of 483,000 bbl/day for the months January through May 1958; their allocation set by the Cabinet Committee was 493,100 bbl/day.³⁷ The import program did not last long as outside forces began to take their toll on the majors.

One such pressure came from the increasing amount of new importers. When the voluntary import program commenced in 1957 there were a total of thirty oil import companies. By September, 1958, this number had grown to fifty-five, with over one hundred additional companies applying for the right to import.³⁸ This growing number resulted from a large discrepancy between foreign and domestic oil prices.

The average price per barrel of domestic crude oil in 1957

³⁷ Limiting oil Imports, p. 53.

³⁸ Regulating Competition in Oil, p. 79.

was \$3.09. In 1959 it was \$2.94.39 Depending on which country the oil was purchased Middle East oil prices in 1957 varied from \$1.72 to \$1.93. Two years later they ranged anywhere from \$1.67 to \$1.90.40 This price difference of over one dollar between domestic and foreign petroleum led independents to continue importing the cheaper oil in order to make larger profits, regardless of any voluntary restrictions on imports.

Another factor that led to its demise was the direct refusal of a few importers to follow the voluntary import guidelines. One such company was Tidewater. Prior to the Cabinet Committees' report in July, 1957, Tidewater had made commitments to expand its refining facilities based on imported crude oil. It had built a two-hundred million dollar refinery in Delaware City. Moreover, it had invested another thirty-five million dollars in the refinery for special equipment to process low-gravity, high-sulfur foreign oil, had entered into firm contracts for tankers, and had committed itself to purchase foreign oil in specified amounts expressly for this new refinery.⁴¹ Under these circumstances it was obvious why Tidewater resisted any form of oil import controls. Not all independents were under the same conditions. Nevertheless, they too had planned to increase their oil imports. Their reasoning was to increase

39 Twentieth Century Petroleum Statistics, p. 62.

40 The World Petroleum Market, p. 340.

41 Limiting Oil Imports, p. 49.

their competitive position as compared to the majors.

Without sanctions this plan was to progress.

As more and more companies either publicly or privately failed to comply with the voluntary oil import controls, the chances of it ever succeeding slowly diminished. By the end of 1958 it appeared that total noncompliance to oil imports had broken out among the entire domestic petroleum industry. This set off a series of events that finally led to government control.

In early 1959, the Special Committee to Investigate Crude Oil Imports recommended that the Office of Defense Mobilization once again investigate the matter of crude oil imports in relation to national security. On February 27, 1959, Leo A. Hoegh, then, acting director of O.D.M., issued his report to Eisenhower. In it he advised the President that crude oil imports were entering the United States in such quantities and under such circumstances as to threaten the security of the United States. In conjunction with Hoeghs' findings, the Special Committee conducted its own report. On March 6, 1959, it was presented to Eisenhower stating the following: "in light of the <Directors'>

findings, the Special Committee recommends that the Voluntary Oil Import Program be replaced by a mandatory program which will limit the imports of crude oil and certain derivatives to such levels as the national security requires and will allocate such imports as are

authorized among companies in a fair and equitable manner."⁴²

Some of the compelling factors found by the Committee to impose mandatory action were: excessive oil imports; increasing noncompliance among companies to cut back imports voluntarily; and the impossibility of working out a desirable and legally permissible revision of the Voluntary Program acceptable to the Committee which would solve the initial requirements of the program.⁴³

On March 10, 1959, the President, responding to these two reports, issued Presidential Proclamation 3279: "Adjusting Imports of Petroleum and Petroleum Products into the United States (for full reading see Appendix A)." This was performed under the provisions of the Trade Agreements Extension Act of 1958.* By passing this act Eisenhower and, thus, the federal government, had finally assumed the authority necessary to limiting foreign petroleum imports into the country. If oil companies chose not to comply with the mandatory import program the government now had legal power to enforce it through sanctions. The presidential proclamation also served as an attempt by the government to

⁴² Report of Special Committee to Investigate Crude Oil Imports, reprinted in The Oil Import Question, appendix c-3, p. 203.

⁴³ Ibid, p. 203.

* Under this act approved August 20, 1958, Section 2, subsection (a) was amended to read, "no action shall be taken pursuant to section 350 of the Tariff Act of 1930, as amended (19 U.S.C., sec. 1351), to decrease the duty on any article if the President finds that such reduction would threaten to impair national security." (U.S. Statutes at Large, 85th Congress, 2nd sess., vol. 72, part 1, 1958), p. 678.

instill some semblance of order in an industry that had been previously plagued by internal strife over oil imports.

The Mandatory Oil Import Control Program addressed three principal policies: (1) regulating the degree of import restrictions through a variety of separate quota levels, (2) allocating permitted imports among domestic claimants, and (3) managing program administration.⁴⁴ To understand the program these three points will be discussed in their entirety.

Under proclamation 3279 the Secretary of Interior was delegated principal responsibility in managing the whole mandatory import program. The Oil Import Administration in the Department of Interior was established in 1957 and served the purpose under the program of regulating the allocation of quotas to U.S. oil refineries. The Secretary was also directed to create an Oil Import Appeal Board. It consisted of representatives of the Department of Interior, Defense, and Commerce. The Interior Department representative was chairman and served full time.⁴⁵ The Appeal Boards' primary function was to consider appeals or petitions by persons affected by the regulations issued by the Secretary of Interior. It was also empowered, on grounds of hardship, error, or other relevant special considerations, to adjust, grant or suspend allocations. The decisions of the Appeal Board were final. One last managerial mechanism came from the director of the Office of

⁴⁴ The Oil Import Question, p. 8.

⁴⁵ Ibid, p. 4.

Civil and Defense Mobilization.* In order to monitor the policy effects of the mandatory program he was assigned the responsibility of maintaining a constant surveillance of imports of petroleum and petroleum products (appendix A, sec.4 and 6).

The specific rules pertaining to the allocation of quotas to U.S. refineries were handled in Oil Import Regulation 1 of the Oil Import Administration. A few of the major provisions of the regulation were as follows:

- (1) the allocation period for crude and unfinished oils, residual fuel oil and refined products would be on a semi-annual basis;
- (2) allocations were made on a "sliding scale," with incremental oil inputs receiving smaller quota allocations;
- (3) a historical factor based on the last allocation under the voluntary program set a minimum for import allocation to historical importers;
- (4) no allocation was permitted to be "sold, assigned, or otherwise transferred;
- (5) the exchange of crude oil was predicted on meeting four requirements. It was required to be:

* The Office of Civil and Defense Mobilization was established in the Executive Office of the President by Reorganization Plan 1 of 1958, for the purpose of centralizing authority for nonmilitary defense functions in a single agency. The director on behalf of the President coordinates and directs all civil defense and defense mobilization activities of the Federal Government (U.S. Gov't Organization manual 1960-61, p. 66).

- a. in kind for domestic crude oil or unfinished oils
- b. not otherwise unlawful
- c. operated on a current basis
- d. reported to the Oil Import Administrator.⁴⁶

Allocations of foreign oil were granted by the Oil Import Administration to domestic refineries in the form of a license of "quota ticket." It, in essence, determined the amount a domestic refinery could import. In order to prevent conflict among those who should receive tickets, the mandatory import program established two criteria. The only entities that could receive quotas were domestic refining companies and historical importers. By restricting quotas to domestic refineries the government was halting a free market from arising out of the crude oil import program.⁴⁷ This, in turn, restricted the entry of specialized firms into the oil import market.⁴⁸ By granting quotas to historical importers, the same result was achieved.

The allocation of quotas were fixed on two separate levels, historical minimums and a refinery's inputs. The mandatory import program allowed the oldest and largest importing companies to start importing at eighty percent of their historical allotment. This was in reference to what had been established under the old voluntary import program. To make room for newcomers, their share of imports would be

⁴⁶ Limiting Oil Imports, pp. 70-71.

⁴⁷ The Oil Import Program of the U.S., p. 152.

⁴⁸ Regulating Competition in Oil, p. 80.

reduced gradually until it equalled, for each oil company, a level proportionate to its refinery runs.⁴⁹

Crude oil quotas were allocated on the basis of a refineries' oil imports. The larger the refinery, the larger the permissible inputs. This, however, was gravely compromised by the adoption of a sliding scale which tended to favor small refineries at the expense of large ones.⁵⁰ Under this scale each refinery received an allocation of 11.1 percent of its first 10,000 barrels of capacity. For each increment of capacity, that percentage declined, so that any capacity above 300,000 barrels per day of oil would merit an allocation of only 3.7 percent.⁵¹ This percentage rate applied strictly to Districts I-IV. In District V the scale started at 37.5 percent for the first 10,000 barrels of oil and decreased proportionately to 8 percent for 200,000 barrels of oil or more (see Table 4). It is important to realize that these percentages were marginal; that is, a refiner with 300,000 or more barrels a day received an 11.1 allocation on the first 10,000 bbl/d, 10 percent on the next 10,000 bbl/d, ect., or an average 6.9 percent of total refinery runs.⁵²

In terms of the total quantity of permissible oil imports the mandatory program specified that they would vary

⁴⁹ Energy Policy in America since 1945, p. 122.

⁵⁰ Kenneth W. Dam, "Implementation of Import Quotas: The Case of Oil", The Journal of Law and Economics, (April 1971, vol. 14), p. 17.

⁵¹ Energy Policy in America since 1945, p. 125.

⁵² "Implementation of Import Quotas: The Case of Oil", The Journal of Law and Economics, pp. 20-21.

directly with changes in total demand. In Districts I-IV, imports of crude oil, unfinished oils and finished products (except for residual fuel oil to be used as fuel) would approximate 9 percent of total domestic demand, as estimated by the Bureau of Mines for periods fixed by the Secretary of Interior. In District V, total allowable imports would be that amount which, when added to domestic supply, would approximate total demand.⁵³ In Districts I-IV the imports of residual fuel oil to be used as fuel would not exceed import levels during the calendar year 1957. Within this maximum level, imports of finished products would not exceed the levels of imports for this same year and imports of unfinished oils would not exceed 10 percent of the permissible imports of crude oil and unfinished oils.⁵³ The total quantity of allowable oil imports was later amended to 12.2 percent.

One other important fact about the mandatory oil import program was that it allowed for an overland oil exemption. The criterion for such action was once again based on national security. Since only Canada and Mexico bordered the United States, and the latter had no pipeline link with the U.S., this exemption was accurately viewed as a foreign policy initiative designed to strengthen U.S.-Canadian relations.⁵⁴ The most revealing feature of this exemption was that it put Canadian oil imports outside the formula for

⁵³ Regulating Competition of Oil, p. 80.

⁵³ Appendix A, sec. 2.

⁵⁴ Energy Policy in America since 1945, p. 128.

controlling the level of total imports. Under such a advantageous condition Canadian oil competed directly for the share of the market available to domestic producers. While United States oil production was regulated by state prorationing commissions, Canadian production was allowed to increase as rapidly as it could find a place in the American oil market.⁵⁵ This created serious outcry among domestic oil producers, that by 1970 this overland oil exemption was put under mandatory control.

Quotas, allocations and administrative structuring were some of the key features that established the Mandatory Oil Import Control Program as a legal statute in regulating the United States oil industry. How this helped bring about the energy crisis of 1973 will be the next area of focus. But, first a discussion on a new element that occurred in 1960 and put even a greater constraint on the U.S. oil industry.

The creation of the Organization of the Petroleum Exporting Countries (OPEC) stemmed from a conference held in Baghdad Iraq, September 9-14, 1960. The reasons for this conference have to do with events that occurred prior to September 1960.

After World War II the world demand for petroleum increased at an accelerated rate. Those countries involved in the conflict required huge amounts of fuel to restore their economies. Accordingly, the portion of world petroleum production entering into international trade rose

⁵⁵ Limiting Oil Imports, p. 128.

from 16.54 percent (just before the war) to 25.54 percent.⁵⁶ To meet the world needs of petroleum, the major oil companies decided to develop rapidly the resources of the Middle East, where reserves were plentiful and operation cost cheap.⁵⁷ One example of this policy was that for the year 1950 the Persian Gulf areas produced oil amounting to 630 million barrels.

As Middle East countries began to realize their importance in the petroleum market, they started entertaining the idea of a united Arab front. This would serve as protection against the major oil companies, who disregarded the interest of those countries. As previously mentioned, the majors owned nearly eighty percent of world petroleum reserves. This meant that the Middle East countries, where a majority of these reserves were located, had little if any actual saying power over the business of managing their petroleum. Therefore, in order for the Arabs to build a decisive front against the major oil companies they had to have the support of both Arab and non-Arab petroleum exporting countries. Thus, when the first Arab Petroleum Congress met in Cairo in April, 1959, the representatives of Iran and Venezuela were invited to attend.⁵⁸

It was at this congress that Sheik Abdullah Tariki of Saudi Arabia and Perez Alfonzo of Venezuela began discussing

⁵⁶ Fuad Rouhani, A History of O.P.E.C., (Praeger, New York, 1971), p. 76.

⁵⁷ Ibid, p. 76.

⁵⁸ Ibid, p. 76

the idea of creating an organization in which all oil producing countries would participate. The result of these dialogues was a secret 'gentlemen's agreement' that was signed by the heads of delegations of exporting countries, including Iran and Venezuela.⁵⁹ On September 14, 1960, this gentlemen's agreement turned into a permanent intergovernmental organization.

What initiated the meeting in Baghdad was the reduction of posted oil prices* unilaterally by the major oil companies without consultation with the oil producing countries. By 1959 the world petroleum market was experiencing a glut. This was the result of three factors. First, the increasing number of independents during the 1950's. As previously argued by the majors, each new oil company meant an increase of petroleum production. The second factor was the emergence of Russia during this same period as a prominent petroleum exporter. Total exports of crude oil and petroleum products from the Soviet Union have increased from eight million tons in 1955, the first postwar year which marked the U.S.S.R. as a net exporter, to an estimated 30 million tons in 1960.⁶⁰ To have some understanding of what this equates to, 7.3 metric tons equals one barrel of petroleum. Finally, the United States import policies of 1957 and 1959 virtually closed off that

⁵⁹ Ibid, p. 76

* posted prices were artificial rates upon which government tax and royalty payments are computed.

⁶⁰ Robert E. Ebel, The Petroleum industry of the Soviet Union, (American Petroleum Institute, 1961), p. 154.

market to petroleum. This forced the majors to sell outside the United States the bulk of the oil produced in the Middle East and Venezuela during the 1950's.

By 1959 these three factors had applied so much pressure on the petroleum market that the price of oil had to be lowered. This was the only possible means by which to eliminate all the excess oil that existed at this time. In February 1959, the majors responded by lowering the posted price of crude oil by about 18 cents a barrel. This cut \$150 million dollars in concession payments to producing countries.⁶¹ However, this price reduction was not enough to take pressure off the oil market, so in August 1960, the majors lowered it again. This time \$93 million dollars was lost in concession payments. Due to these two price reductions the oil producing countries were left with no other choice but to organize themselves in order to protect their interest. This was precisely what they did in Baghdad, Iraq on September 14, 1960.

The aims of O.P.E.C. were set forth in two resolutions, of which the first stated, "that members can no longer remain indifferent to the attitudes heretofore adopted by the oil companies in effecting price modifications; that members shall demand that oil companies maintain their <oil> prices steady and free from all necessary fluctuations; that members shall endeavor, by all means available to them, to restore present <oil> prices to

⁶¹ Allen Loring, O.P.E.C. Oil, (Oelgeschlager, Gunn and Hain, Cambridge, 1979), p. 46.

the levels prevailing before the reduction"62
 The second resolution read as follows: "the principal aim of
 the Organization shall be the unification of petroleum
 policies for the member countries and the determination
 of the best means for safeguarding the interest of the
 member countries individually and collectively."63

These two resolutions established a base from which O.P.E.C.
 was to operate.

The founding members of O.P.E.C. were Iran, Iraq,
 Kuwait, Saudi Arabia and Venezuela.* The group alone
 exported 83 percent of world exports, produced 41 percent of
 world production and owned nearly two-thirds of world oil
 reserves.64 At the same time the majors owned 84 percent of
 world crude oil production facilities outside the United
 States and communist-bloc countries and possessed or
 controlled 74 percent of refining and 70 percent of
 marketing capacity.65 Eventhough O.P.E.C. members may have
 owned the resources the majors had a monopoly on the means
 of production. This was why they were able to conduct their
 business with little friction from the oil producing
 countries. However, as O.P.E.C. began to build a system of

62 A History of O.P.E.C., p. 78.

63 Ibid, p. 78.

* By 1973 seven new members had joined. They included
 Qatar, Libya, Indonesia, United Arab Emirates (Dubai,
 Sharjak, Ras Al-Khaimah, Umm Al Qaywayn and the largest Abu
 Dhabe), Algeria, Nigeria and Ecuador.

64 O.P.E.C. Oil, p. 52.

65 Ferdinand E. Banks, The Political Economy of Oil, (D.C.
 Heath and Company, Lexington, 1980), p. 168.

cohesion among its members in the latter half of the 1960's this friction started producing sparks.

From the beginning O.P.E.C. achieved one important aim: it prevented further reductions in the posted price of oil, even though competition was becoming still more intense.⁶⁶ After the 1960 price reduction the majors never again reduced the posted price of crude. It would have benefited them greatly to do so, because, as previously mentioned, the oil market was in a glut. What did occur, however, was an increase in the price of oil, but never to the level it was prior to 1960. Another minor achievement for O.P.E.C. was its ability to convince the majors in December of 1964 to accept a uniform rate for royalty payments in each country, which would not be used as a credit against the fifty percent income tax already paid. This meant that O.P.E.C. members now received revenues from both an income tax based on its original intentions and royalties. The result was to raise O.P.E.C.'s revenues and decrease somewhat the profits of the majors.

These achievements, however, were overshadowed by O.P.E.C.'s ineffectiveness in managing itself during the 1960's. The main problem was the lack of solidarity among its members. One example was the failure in achieving any kind of effective pro-rationing of oil production between its members.⁶⁹ Unfortunately, Saudi Arabia, which was emerging as the leader among O.P.E.C., did not show any

⁶⁶ Seven Sisters, p. 163.

⁶⁹ Ibid, p. 164.

interest in the plan. They realized that any restriction on oil production meant a loss in petroleum revenues. By 1967, O.P.E.C. had abandoned any attempt at creating an equilibrium of production among its members.

This sign of weakness left the major oil companies in a position equal to that prior to September, 1960. They continued to deal separately with each government, and to play them against each other; while O.P.E.C. members remained in awe over the power of the majors.⁷⁰ The tide, however, turned in 1969 and 1970 when O.P.E.C. stated to assert itself as a formidable force among the leaders of the petroleum industry.

The main ingredient to O.P.E.C.'s success was its ability to gain control over its own petroleum reserves. This was accomplished by means of dominating the price structure of oil. For example, if one controls the pricing of a commodity he, in essence, owns that commodity because he may charge whatever price he desires. If a buyer has a necessity for that commodity he is forced to pay its asking price or find a cheaper alternative. This economic analogy was precisely what occurred within the petroleum market between 1970 and 1970. From 1970 to 1973 O.P.E.C. members were able to take away from the majors the power to control oil pricing.

There were a few main causes for why O.P.E.C. was capable of achieving this. The first was a "leapfrogging"

⁷¹ Steven A. Schneider, *The Oil Price Revolution*, (The Johns Hopkins University Press, Baltimore, 1983), p. 138.

⁷⁰ Idid, p. 165.

of demands that had its origins with Libya in 1970. The second was the relationship the majors and the independents had with O.P.E.C. members. The last was the beginnings of talk suggesting a temporary or short-run world shortage of petroleum. These three facts led to both O.P.E.C.'s control over oil prices and an energy crisis within the United States.

The beginning of O.P.E.C.'s rise was in June, 1968 when they adopted a "Declaratory Statement of Petroleum Policy in Member Countries." This statement asserted their right to equity participation or an ownership share in the majors' concessions. It also maintained that the governments of oil exporting countries had the right to unilaterally determine the price the oil companies paid them and that their per barrel payments should keep pace with the prices of the industrial products they imported.⁷¹ O.P.E.C. also declared that the majors did not have the right to excessive high net earnings after taxes; accordingly, excess profits, as determined by the government, would be paid to the host country by the oil company.⁷² The majors responded with skepticism, for they did not believe that O.P.E.C. was strong enough to achieve its objectives.

The first critical showdown over pricing did not start with Persian Gulf states as was presumed by petroleum leaders, but with Libya, the upstart oil producer on the

⁷¹ Steven A. Schneider, The Oil Price Revolution, (The Johns Hopkins University Press, Baltimore, 1983), p. 135.

⁷² Ibid, p. 135.

edge of the Arab world in North Africa.⁷³ In 1970 Libya, with its new revolutionary government, began demanding higher posted prices for its petroleum. The reason was because Colonel Muammar Qaddafi, Libya's new leader, realized he had an advantage over other O.P.E.C. members and, thus, wanted to exploit it. Libya had received the highest per barrel payments of any Arab government for two reasons (see Table 5). The first was its location. Libya bordered the Mediterranean Sea, which made shipping its oil to Western markets considerably cheaper. It was estimated to be somewhere near 40 cents more to ship oil from the Persian Gulf.⁷⁴ The other reason was the quality of its petroleum. It had a low-sulfur content, which made it especially attractive to the United States and its environmental policies. When Libya began to negotiate for higher posted oil prices in early 1970 it had one great bargaining chip other than the two just mentioned. This advantage was based on the fact that the oil companies operating in Libya, mainly independents, had become dependent on its petroleum. The reasons were economical. High-sulfur oils were more costly to process and they also led to corrosion and other hazards in refining operations.⁷⁵ Under such a favorable position Libya was able to make serious demands. If they were not

73 Seven Sisters, p. 208.

74 The Oil Price Revolution, p. 141.

75 Ibid, p. 140.

met it could cut off the supply of petroleum to these oil companies.

To show Libya meant business in May and June of 1970 Qadaffi ordered Occidental Petroleum, an independent, to cut back its oil production from 680,000 to 500,000 barrels a day.⁷⁶ At the same time Qadaffi began talks with the Soviet Union over a possible new market for its oil. Such a plan threatened to displace the control over the already existing market within Libya, which a few majors had been enjoying for a long time. These two facts, in addition to the ones previously mentioned about Libya, helped pressure the majors into accepting the demands made by Qadaffi.

In September, 1970 the majors had agreed to higher posted prices for Libyan petroleum. The terms of the agreement were that Libya would receive 30 cents more for a barrel of its oil and the tax rates, which determined royalty payments, were to increase to 54 percent, up from 50 percent.⁷⁷ The result of this settlement was that Libyan oil revenues were to increase to \$1.4 billion dollars. It was also estimated that the cost to the majors was near \$330 million dollars.⁷⁸

The success of Libya marked for the first time in the relationship between oil exporting countries and the majors that an agreement had been settled in favor of these countries. The Libyan settlement suggested a shift in the

⁷⁶ Seven Sisters, p. 212.

⁷⁷ John M. Lee, "Squeeze Pinching Oil Corporations", New York Times, November 2, 1970.

⁷⁸ Ibid, p. 77.

balance of power away from the majors and toward the exporting countries.⁷⁹ It also created a situation that was most feared by the leaders of the petroleum industry, the leapfrogging of demands by other O.P.E.C. members.

This leapfrogging resulted in two separate agreements between O.P.E.C. and the majors that were signed within two months of each other. The first was the Teheran agreement of February 14, 1971. Its success was attributed to an ultimatum issued by O.P.E.C.

Negotiations between the majors and O.P.E.C. over higher posted oil prices had broken off on February 2, 1971. As a result O.P.E.C. held its own conference, ending with a resolution that each exporting country could legislate new terms if the major did not accept the prior demands, and would embargo any country which did not accept these terms.⁸⁰ The majors, who wished to prevent any unilateral action among O.P.E.C. members, returned to the bargaining table. On February 14, 1971, the Teheran agreement was signed. It allowed for an extra 30 cents on the posted price, escalating to 50 cents by 1975. In addition, the majors agreed to increase the tax rate to 55 percent. The agreement was to last five years, and include provisions for an annual upward adjustment of 2.5 percent of worldwide inflation and a further annual 5 cent per barrel increase.⁸¹

⁷⁹ "Squeeze Pinching Oil Corporations", New York Times, Nov. 29, 1970, p. 77.

⁸⁰ Seven Sisters, p. 225.

⁸¹ The Oil Price Revolution, p. 158.

Less than a week later the majors once again began talks with Libya.

Prior to negotiations on O.P.E.C. demands, Libya had once again sought further increases in the posted price of oil. A little more than a week after the Teheran agreements had been signed, the majors commenced talks with Libya in Tripoli.

In addition to higher posted oil prices, Qadaffi was seeking a provision that would require the majors to reinvest 25 cents in Libya for every barrel of its oil the majors produced. Libya backed its demands with a threat to embargo their oil from the majors. On April 2, 1971, the Tripoli agreement was signed. The posted price of oil was settled at \$3.30 - an increase of 76 cents.⁸²

The results of the Teheran/Tripoli agreements were an enormous victory for the oil exporting countries. By mid-1971 their per barrel income was roughly 50 percent higher than it had been in 1969. In 1971 alone, the total increase in government revenues were expected to be \$4.3 billion dollars.⁸³ The affect on the United States was of minor significance. For every dollar it spent on petroleum products in 1970, 7.9 cents went to the producing countries; following the Teheran/Tripoli agreements, this increased to 10 cents - little cause for alarm.⁸⁴ What this did mean, however, was that more capital was going to countries that

⁸² Seven Sisters, p. 227.

⁸³ The Oil Price Revolution, p. 162.

⁸⁴ Ibid, p. 163.

had relatively small populations compared to the rest of the world. With greater revenues oil exporting countries were gaining important economic stability among the world leaders.

These agreements also represented a serious shift in the power relation between the majors and O.P.E.C. members. As O.P.E.C. demands were met the influence of the majors over the petroleum market slowly diminished. This was an important factor because the majors could no longer make decisions on their own. They now had to take into consideration the reactions of the oil exporting countries.

By 1973 the United States was experiencing for the first time an energy crisis of catastrophic proportions.⁸⁵ The reasons were twofold. First, the policies of the United States on regulating the importation of foreign oil had prevented the domestic oil industry from meeting the nations energy needs and secondly, the world demand for oil had far outreached its supply.

As previously discussed, the United States had implemented a policy that was to restrict the amount of petroleum coming into the country. To offset this absence of foreign oil the U.S. oil industry were given incentives to increase domestic petroleum productions. This was achieved by maintaining the price for domestic oil above the world price. With higher domestic petroleum prices the desire to discover oil would become greater. If the cost of

⁸⁵ Interview with Tom Burns, economist for Standard Oil of California.

production was significantly lower than the price of oil, then there would be a greater incentive to discover that oil because when an individual sold that high priced oil he would be make a significant profit.

Unfortunately, in 1970 production levels of oil in the United States had decreased for the first time in over fifteen years. The contributing factor was that the number of oil producing wells had decreased by nearly 70 thousand for this year.⁸⁶ This statistic would not have been so devastating if the demand for oil was relatively stable. However, in 1972 and 1973 world demand for oil had risen far above what had been calculated by petroleum experts. The main reason for such an occurrence were the expanding economies of the major industrial nations. In the United States this led to an increase demand for oil imports.

In order for them to enter the United States at such a level as to offset domestic oil demand the controls on imports had to be changed. Between March, 1970 and June, 1973 President Richard M. Nixon, by executive authority, amended the Mandatory Import Control Program thirteen times.⁸⁷ Each amendment allowed a little more petroleum to enter the United States. The result was that U.S. oil imports had risen 22.9 percent in less than eight years (see Table 6). With such a dramatic increase in oil imports the United States could be nothing but dependent on foreign,

86 Twentieth Century Petroleum Statistics, p. 60.

87 Limiting Oil Imports, pp. 95-98.

regardless of the goals of the Mandatory Import Control Program.

The energy crisis that had culminated in the United States by 1973 was not because of the oil embargo imposed on the U.S. by the O.P.E.C countries in late 1973, as suggested in the opening paragraphs of this paper, but because of its policies on petroleum both domestically and abroad, and the condition of the domestic oil industry in the early years of the 1970's.

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TABLE 1

Imports of crude oil and refined products by 11 principal
importing companies, 1948 and 1950 (estimated)

LIST OF PETROLEUM DISTRICTS

District	States
I (East Coast)	Connecticut, Delaware, Florida, Georgia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, South Carolina, Vermont, Vir- ginia, and West Virginia
II (North Central)	Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, Oklahoma, South Dakota, Tennessee, and Wisconsin
III (South Central)	Alabama, Arkansas, Louisiana, Mississippi, New Mexico, and Texas
IV (Rocky Mountain)	Colorado, Idaho, Montana, Utah, and Wyoming
V (West Coast)	Alaska, Arizona, California, Hawaii, Nevada, Oregon, and Washington

TABLE 1

imports of crude oil and refined products by 11 principal
importing companies, 1948 and 1950 (estimated)

Importing company	Average year 1948	Average second six months, 1950 (estimated)	Percentage change
Standard Oil Co. (New Jersey)	184,300	236,500	+28
Gulf Oil Corp.	83,045	105,000	+26
The Texas Co.	16,977	66,000	+289
Socony-Vacuum Oil Co.	57,261	73,000	+27
Shell Caribbean Petroleum Co. (formerly Asiatic Petroleum Corp.)	9,798	82,200	+739
Atlantic Refining Co.	24,482	62,515	+155
Standard Oil Co. (Indiana)	25,414	45,417	+79
Sinclair Oil Corp.	24,595	50,683	+106
Standard Oil Co. (California)	13,273	32,979	+148
Shell Oil Co.	5,947	13,835	+132
Cities Service Co.	18,446	13,295	-28
Total 11 Companies	463,538	781,424	+69
All other imports	50,462	50,148	-1
Total imports	514,000	831,572	+62

Note: Barrels per day.

Source: U.S. Congress, House Select Committee on Small Business, *Hearings - Effects of Foreign Oil Imports on Independent Domestic Producers* (81st Congress, 1st. Sess.), May 1949, pt. 1, p. 27.

* Southeast area only. Normal unit allowable converted to market demand factor based on 70 barrels per day as maximum normal unit allowable.

* No fixed allowable schedule.

* Comparable data not available.

* Not exactly comparable with preceding figures because of the introduction in this year of the new "intermediate zone" allowable schedule, which effectively increased the base to which the market demand factor applied.

TABLE 2

Annual Average of Monthly Production Allowables for Four States, 1948-67

(percent of MER per well)

Year	Texas	Louisiana	New Mexico ^a	Oklahoma
1948	100	b	63	•
1949	65	b	61	•
1950	63	b	69	•
1951	76	b	74	•
1952	71	b	68	•
1953	65	90	63	•
1954	53	61	57	•
1955	53	48	57	60
1956	52	42	56	53
1957	47	43	56	52
1958	33	33	49	45
1959	34	34	50	41
1960	28	34	49	35
1961	28	32	49	31
1962	27	32	50	35
1963	28	32	54	31
1964	28	32	54	28
1965	29	33	56	27
1966	34	35	65	38
1967	41	38 ^d	74	50

Source: Stephen L. McDonald, *Petroleum Conservation in the United States: An Economic Analysis* (Baltimore, Johns Hopkins University Press for Resources for the Future, 1971) p. 164.

^a Southeast area only. Normal unit allowables converted to market demand factor based on 70 barrels per day as maximum normal unit allowable.

^b No fixed allowable schedule.

^c Comparable data not available.

^d Not exactly comparable with preceding figures because of the introduction in this year of the new "intermediate zone" allowable schedule, which effectively increased the base to which the market demand factor applied.

TABLE 3

The Relationship Between Crude Imports
and Domestic Production,
1948-58

Year	(1) Domestic Production (000 bbls/day)	(2) Crude Imports (000 bbls/day)	(3) Imports Production (2)/(1) (%)
1948	5,520	353	6.4
1949	5,046	421	8.4
1950	5,407	487	9.0
1951	6,158	491	8.0
1952	6,256	573	9.2
1953	6,458	648	10.0
1954	6,342	656	10.3
Voluntary Program			
1955	6,807	782	11.5
1956	7,151	934	13.1
1957	7,170	1,023	14.3
1958	6,710	953	14.2

Source: American Petroleum Institute

TABLE 4

Input Allocation Schedules,
Crude and Unfinished Oils,
1959 and 1965^a

Refinery Input Bracket ^b (000 bbls/ day)	Quota 2nd Half 1959 (Per Cent)	Refinery Input Bracket ^c (000 bbls/ day)	Quota 1st Half 1965 (Per Cent)
Districts I-IV			
0-10	11.4	0-10	17.0
10-20	10.4	10-30	11.6
20-30	9.5	30-100	9.2
30-60	8.5	100 plus	5.53
60-100	7.6		
100-150	6.6		
150-200	5.7		
200-300	4.7		
300 plus	3.8		
District V			
0-10	37.5	0-10	60.0
10-20	30.0	10-30	33.7
20-30	22.5	30-100	20.6
30-60	15.0	100 plus	16.1
60-100	12.0		
100-150	11.0		
150-200	10.0		
200 plus	8.0		

^aSource: U.S., Department of the Interior, Oil Import Administration.

^bFor the year ending March 31, 1959.

^cFor the year ending September 30, 1964.

TABLE 6

	1965-70	1970-71	1971-72	1972-73
Developed Market Economies	4.6%	1.7%	5.5%	6.0%
GDP	5.6	3.7	5.8	5.3
Oil consumption	11.2	15.6	17.5	14.9

TABLE 5

Crude	June 1970	Jan. 1971	June 1971
Iranian light 34°	\$1.79	\$1.79	\$2.274
Arabian light 27°	1.47	1.56	2.059
Libya (Brega) 40°	2.21	2.55	3.423

SOURCE: *Petroleum Economist* 37, no. 6 (June, 1970); 38, no. 1 (Jan., 1971); 38, no. 6 (June, 1971).

TABLE 6

	1965-70	1970-71	1971-72	1972-73
Developed Market Economies				
GDP	4.6%	3.7%	5.5%	6.0%
Energy consumption	5.6	3.7	5.8	5.5
Oil consumption	7.9	4.4	7.5	6.8
Oil imports	11.2	6.6	6.8	14.9
Non-Communist World				
GDP	4.8%	4.0%	5.4%	6.3%
Energy consumption	5.8	3.1	5.3	4.9
Oil consumption	8.0	4.9	7.7	6.8
Oil imports	10.9	7.3	9.4	13.3
World				
GDP	5.3%	4.6%	5.6%	7.3%
Energy consumption	5.5	4.0	5.2	5.1
Oil consumption	8.1	5.4	8.0	7.3
Oil imports	11.1	7.3	10.6	13.1
Oil imports, developed market economies, excluding U.S.	12.2%	4.7%	3.6%	11.4%
U.S. oil imports	6.3	16.9	22.0	29.2
				11.7

Figures on GDP (gross domestic product) are from U.N., *Yearbook of National Accounts, 1976*, Vol. 3, table 4A. Figures for oil and energy consumption for the developed market economies from 1970-73 are from BP, *Statistical Review of the World Oil Industry* (various issues). Figures on energy consumption for 1965-70 and for the non-Communist world and the world from 1970-73 are from U.N., *World Energy Supplies, 1971-75*, table 1, p. 3. These figures are not strictly comparable with those from BP, but the differences should be slight. Figures on oil imports are also from BP. All rates of increase, except for GDP, were computed by the author.

Proclamation 3279

ADJUSTING IMPORTS OF PETROLEUM
AND PETROLEUM PRODUCTS INTO
THE UNITED STATES

WHEREAS, pursuant to section 2 of the act of July 1, 1954, as amended (72 Stat. 678, 19 U.S.C. 1352a), the Director of the Office of Civil and Defense Mobilization has made an appropriate investigation to determine the effects on the national security of imports of crude oil and crude oil derivatives and products and, having considered the matters required by him to be considered by the said act of July 1, 1954, as amended, has advised me of his opinion "that crude oil and the principal crude oil derivatives and products are being imported in such quantities and under such circumstances as to threaten to impair the national security"; and

WHEREAS, having considered the matters required by me to be considered by the said act of July 1, 1954, as amended, I agree with the said advice; and

WHEREAS I find and declare that adjustments must be made in the imports of crude oil, unfinished oils, and finished products, so that such imports will not so threaten to impair the national security; and

WHEREAS I find and declare that within the continental United States there are two areas, one, east of the Rocky Mountains (Districts I-IV), in which there is substantial oil production capacity in excess of actual production, and the other, west of the Rocky Mountains (District V), in which production is declining and in which, due to the absence of any significant inter-area flow

of oil, limited imports are necessary to meet demand, and that accordingly, imports into such areas must be treated differently to avoid discouragement of and decrease in domestic oil production, exploration and development to the detriment of the national security; and

WHEREAS I find and declare that the Commonwealth of Puerto Rico largely depends upon imported crude oil, unfinished oils, and finished products and that any system for the adjustment of imports of such commodities should permit imports into Puerto Rico adequate for the purposes of local consumption, export to foreign areas, and limited shipment of finished products to the continental United States:

NOW, THEREFORE, I, DWIGHT D. EISENHOWER, President of the United States of America, acting under and by virtue of the authority vested in me by section 2 of the act of July 1, 1954, as amended, do hereby proclaim as follows:

SECTION 1. (a) In Districts I-IV, District V, and in Puerto Rico, on and after March 11, 1959, no crude oil or unfinished oils may be entered for consumption or withdrawn from warehouse for consumption, and on and after April 1, 1959, no finished products may be entered for consumption or withdrawn from warehouse for consumption, except (1) by or for the account of a person to whom a license has been issued by the Secretary of the Interior pursuant to an allocation made to such person by the Secretary in accordance with regulations issued by the Secretary, and such entries and withdrawals may be made only in accordance with the terms of such license, or (2) as authorized by the Secretary pursuant to paragraph (b) of this section, or (3) as to finished products, by or for the account of a department, establishment, or agency of the United States, which shall not be required to have such a license but which shall be subject to the provisions of paragraph (c) of this section.

(b) Until the Secretary of the Interior is able to make allocations and issue licenses, he may, subject to such conditions as he may deem appropriate, temporarily authorize such entries and withdrawals without licenses and the quantities so entered or withdrawn shall be deducted from any allocation subsequently made by the Secretary to any person who has made any such entry or withdrawal.

(c) In Districts I-IV, District V, and in Puerto Rico, on and after April 1, 1959, no department, establishment, or agency of the United States shall import finished products in excess of the respective allocations made to them by the Secretary of the Interior. Such allocations shall be within the maximum levels of imports established in section 2 of this proclamation.

Sec. 2. (a) (1) In Districts I-IV the maximum level of imports of crude oil, unfinished oils, and finished products, except residual fuel oil to be used as fuel, shall be approximately 9% of total demand in these districts, as estimated by the Bureau of Mines for periods fixed by the Secretary of the Interior. Within this maximum level, imports of finished products, exclusive of residual fuel oil to be used as fuel, shall not exceed the level of imports of such products into these districts during the calendar year 1957 and imports of unfinished oils shall not exceed 10% of the permissible imports of crude oil and unfinished oils.

(2) In Districts I-IV the imports of residual fuel oil to be used as fuel shall not exceed the level of imports of that product into these districts during the calendar year 1957.

(b) In District V the maximum level of imports of crude oil, unfinished oils, and finished products shall be an amount which, together with domestic production and supply, will approximate total demand in this district as estimated by the Bureau of Mines for periods fixed by the Secretary. Within this maximum level imports of finished products shall not exceed the level of imports of such products into this district during the calendar year 1957 and imports of unfinished oils shall not exceed 10% of the permissible imports of crude oil and unfinished oils.

(c) Such additional imports of crude oil may be permitted in addition to the maximum levels established in paragraphs (a) and (b) of this section as are necessary to meet the minimum requirements of refiners, and pipeline companies using crude oil directly as fuel, which are not able to obtain sufficient quantities of domestic crude oil by ordinary and continuous means, such as by barges, pipelines, or tankers.

(d) The maximum level of imports of crude oil, unfinished oils, and finished products into Puerto Rico shall be ap-

proximately the level of imports into Puerto Rico during all or part of the calendar year 1958, as determined by the Secretary of the Interior to be consonant with the purposes of this proclamation, or such lower or higher levels as the Secretary may subsequently determine are required to meet increases or decreases in local demand in Puerto Rico or demand for export to foreign areas.

(e) The Secretary of the Interior shall keep under review the imports into Districts I-IV and into District V of residual fuel oil to be used as fuel and the Secretary may make, on a monthly basis if required, such adjustments in the maximum level of such imports as he may determine to be consonant with the objectives of this proclamation.

(f) The levels established, and the total demand referred to, in this section do not include free withdrawals by persons pursuant to section 309 of the Tariff Act of 1930, as amended (19 U.S.C. 1309), or petroleum supplies for vessels or aircraft operated by the United States between points referred to in said section 309 (as to vessels or aircraft, respectively) or between any point in the United States or its possessions and any point in a foreign country.

Sec. 3. (a) The Secretary of the Interior is hereby authorized to issue regulations for the purpose of implementing this proclamation. Such regulations shall be consistent with the levels established in this proclamation for imports of crude oil, unfinished oils, and finished products into Districts I-IV, into District V, and into Puerto Rico, and shall provide for a system of allocation of the authorized imports of such crude oil, unfinished oils and finished products and for the issuance of licenses pursuant to such system, with such restrictions upon the transfer of allocations and licenses as may be deemed appropriate to further the purposes of this proclamation.

(b) (1) With respect to the allocations of imports of crude oil and unfinished oils into Districts I-IV, and into District V, such regulations shall provide, to the extent possible, for a fair and equitable distribution among persons having refinery capacity in these districts in relation to refinery inputs during an appropriate period or periods selected by the Secretary and may provide for distribution in such manner as to avoid drastic reductions below the last allocations

under the Voluntary Oil Import Program. Such regulations also shall provide for allocations of crude oil to persons having operating refinery capacity or having pipeline facilities using crude oil directly as fuel who show inability to obtain sufficient quantities of domestic crude oil by ordinary and continuous means, such as barges, pipelines, or tankers.

(2) Such regulations shall provide for the allocation of imports of crude oil and unfinished oils into Puerto Rico among persons having refinery capacity in Puerto Rico in relation to refinery inputs during all or a part of the calendar year 1958 as the Secretary may determine.

(3) Such regulations shall require that imported crude oil and unfinished oils be processed in the licensee's refinery except that exchanges for domestic crude or unfinished oils may be made if otherwise lawful, if effected on a current basis and reported in advance to the Secretary, and if the domestic crude or unfinished oils are processed in the licensee's refinery. However, persons receiving allocations of crude oil on the basis of inability to obtain sufficient domestic crude by ordinary and continuous means shall not be permitted to make exchanges.

(4) With respect to the allocations of imports of finished products into Districts I-IV, District V, and Puerto Rico, such regulations shall, to the extent possible, result in a fair and equitable distribution of such products among persons who have been importers of finished products during the respective base periods specified in section 2 of this proclamation.

(c) Such regulations may provide for the revocation or suspension by the Secretary of any allocation or license on grounds relating to the national security, or the violation of the terms of this proclamation, or of any regulation or license issued pursuant to this proclamation.

SEC. 4. For the purpose of hearing and considering appeals or petitions by persons affected by the regulations issued by the Secretary of the Interior, he is authorized to provide for the establishment and operation of an Appeal Board, comprised of one representative each from the Departments of the Interior, Defense, and Commerce to be designated, respectively, by the heads of such De-

partments. Such representatives shall be of the rank of Deputy Assistant Secretary or higher. The Appeal Board may be empowered, on grounds of hardship, error, or other relevant special consideration, but within the limits of the maximum levels of imports established in section 2 of this proclamation (1) to modify any allocation made to any person under the regulations issued pursuant to section 3 of this proclamation, (2) to grant allocations of crude oil and unfinished oils in special circumstances to persons with importing histories who do not qualify for allocations under such regulations; and (3) to review the revocation or suspension of any allocation or license. The Secretary may provide that such decisions by the Appeal Board shall be final.

SEC. 5. Persons who apply for allocations of crude oil, unfinished oils, or finished products and persons to whom such allocations have been made shall furnish to the Secretary of the Interior such information and shall make such reports as he may require, by regulation or otherwise, in the discharge of his responsibilities under this proclamation.

SEC. 6. (a) The Director of the Office of Civil and Defense Mobilization shall maintain a constant surveillance of imports of petroleum and its primary derivatives in respect of the national security and, after consultation with the Secretaries of State, Defense, Treasury, the Interior, Commerce, and Labor, he shall inform the President of any circumstances which, in the Director's opinion might indicate the need for further Presidential action under section 2 of the act of July 1, 1954, as amended. In the event prices of crude oil or its products or derivatives should be increased after the effective date of this proclamation, such surveillance shall include a determination as to whether such increase or increases are necessary to accomplish the national security objectives of the act of July 1, 1954, as amended, and of this proclamation.

(b) The Special Committee to Investigate Crude Oil Imports is hereby discharged of its responsibilities.

SEC. 7. The Secretary of the Interior may delegate, and provide for successive redelegation of, the authority conferred upon him by this proclamation. All departments and agencies of the Executive

branch of the Government shall cooperate with and assist the Secretary of the Interior in carrying out the purposes of this proclamation.

Sec. 8. Executive Order 10761 of March 27, 1958, entitled "Government Purchases of Crude Petroleum and Petroleum Products" (23 F.R. 2067) is hereby revoked as of April 1, 1959.

Sec. 9. As used in this proclamation:

(a) "Person" includes an individual, a corporation, firm, or other business organization or legal entity, and an agency of a state, territorial, or local government, but does not include a department, establishment, or agency of the United States;

(b) "Districts I-IV" means the District of Columbia and all of the States of the United States except those States within District V;

(c) "District V" means the States of Arizona, Nevada, California, Oregon, Washington, Alaska, and the Territory of Hawaii;

(d) "Crude oil" means crude petroleum as it is produced at the wellhead;

(e) "Finished Products" means any one or more of the following petroleum oils, or a mixture or combination of such oils, which are to be used without further processing except blending by mechanical means:

(1) liquefied gases—hydrocarbon gases recovered from natural gas or produced from petroleum refining and kept under pressure to maintain a liquid state at ambient temperatures;

(2) gasoline—a refined petroleum distillate which, by its composition, is suitable for use as a carburant in internal combustion engines;

(3) jet fuel—a refined petroleum distillate used to fuel jet propulsion engines;

(4) naphtha—a refined petroleum distillate falling within a distillation range overlapping the higher gasoline and the lower kerosenes;

(5) fuel oil—a liquid or liquefiable petroleum product burned for lighting or for the generation of heat or power and derived directly or indirectly from crude oil, such as kerosene, range oil, distillate fuel oils, gas oil, diesel fuel, topped crude oil, residues;

(6) lubricating oil—a refined petroleum distillate or specially treated petro-

leum residue used to lessen friction between surfaces;

(7) residual fuel oil—a topped crude oil or viscous residuum which, as obtained in refining or after blending with other fuel oil, meets or is the equivalent of Military Specification Mil-F-859 for Navy Special Fuel Oil and any other more viscous fuel oil, such as No. 5 or Bunker C;

(8) asphalt—a solid or semi-solid cementitious material which gradually liquefies when heated, in which the predominating constituents are bitumens, and which is obtained in refining crude oil.

(f) "Unfinished Oils" means one or more of the petroleum oils listed in paragraph (e) of this section, or a mixture or combination of such oils, which are to be further processed other than by blending by mechanical means.

IN WITNESS WHEREOF, I have hereunto set my hand and caused the Seal of the United States of America to be affixed.

DONE at the City of Washington this 10th day of March in the year of our Lord nineteen hundred and [SEAL] fifty-nine, and of the Independence of the United States of America the one hundred and eighty-third.

DWIGHT D. EISENHOWER

By the President

CHRISTIAN A. HERTER,
Acting Secretary of State.