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HEARINGS
BEFORE THE
SUBCOMMITTEE ON CONSUMER ECONOMICS
OF THE
JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES
NINETY-THIRD CONGRESS
SECOND SESSION

MARCH 12 AND 14, 1974

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GASOLINE DISTRIBUTION

TUESDAY, MARCH 12, 1974

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON CONSUMER ECONOMICS
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:40 a.m., in room 1202, Dirksen Senate Office Building, Hon. Hubert H. Humphrey (chairman of the subcommittee) presiding.

Present: Senator Humphrey.

Also present: Loughlin F. McHugh, senior economist; William A. Cox and Lucy A. Falcone, professional staff members; and Michael J. Runde, administrative assistant.

OPENING STATEMENT OF CHAIRMAN HUMPHREY

Chairman HUMPHREY. We will proceed with the meeting of the Subcommittee on Consumer Economics of the Joint Economic Committee. We have a number of witnesses today with prepared statements that have been filed with us. I have a very brief opening statement. I want to say that we have provided all of the environmental conditioning that is necessary for a hearing on matters of fuel storage. This building has been like an icebox for about 2 or 3 days. I think you can really overdo a good thing.

Yesterday I was in the Committee on Foreign Relations. I think the temperature in the building was 54 degrees. I didn't mind it a bit except I hadn't worn my winter underwear. I thought that the building engineer might have heard by now that we froze to death yesterday but it takes a long time to get a message through to the Government, as some people know.

Now, having made my complaints, let me make a short statement on the subject of this hearing.

Despite the fact that retail gasoline prices have risen by over 30 percent in the last year, the supply situation was worse in February 1974 than in any previous month. In other words, while an American family operating one or more motor vehicles roughly 18,000 miles per year, now pays about \$200 a year more to do so, that family still has no assurance of getting enough gas to go to work much less to take a hard-earned family vacation this coming summer.

We are here this morning to reassess the gasoline allocation system in light of recent experience. How did it work under the stress of the February crisis? What changes, if any, should be made? Can

the Federal Energy Office and the oil industry react more swiftly in the future to relieve disruption than they did in February? Is the system of user priorities working as intended?

We are going to ask our witnesses to comment upon those questions. So much of the information we get in Washington is what I call "in-house information." We have a capacity to talk to each other down here and we start telling each other our misinformation. So I thought it would be good to get people who are not necessarily Government officials and Washington experts to come in here and tell it like it is out where people are living, because what I hear here in Washington and what I hear from folks back home that write me makes it seem like it is two separate worlds. The space program undoubtedly has worked because we are getting communications from people that have no—that the Government doesn't seem to know exist. And I say that quite responsibly. I am rather surprised that there seems to be such a lack of communication despite the efforts of Mr. Simon to communicate effectively by television.

I have to ask other questions. Will recent changes in service station operations help to avert waiting and panic buying in the future? What other changes, if any, should be considered? What can be done to relieve the hardship faced today by the West Virginia coal miners, migratory farmworkers, and other who must drive long distances to their jobs?

The big question is whether the apparent return to relatively normal conditions in early March will prove temporary or lasting. If the present system cannot avert the return of serious shortages every month or so, then some form of coupon rationing may become necessary. But the system for rationing proposed by the FEO has been subjected to little public or congressional scrutiny up to now.

The FEO proposes a system of more or less equal coupon allotments for everyone, corrected only for the availability of mass transit. These coupons could be bought and sold. How could their price behave? Would the coupon system aid in proper allocation of physical supplies of gasoline or not? Would it alleviate the problems of long lines and short service station hours that have so inconvenienced American motorists? For this system, too, recent experience foreshadows some serious problems. I am talking about the proposed coupon rationing system for which the regulations have been published in the Federal Register for comments but on which there have been no public hearings.

Again, the situation of the coal miners and migratory workers provide good illustrations. Is it fair for people like these to have to pay the high prices that probably would prevail for extra gas coupons just in order to pursue their livelihoods? Who can assure that they could buy enough gas coupons in rural areas at any price to get themselves to work? What would happen to the value of coupons if the supply of gas runs out? Those are just a few of the questions we will want to ask the proper officials at the right time about the proposed rationing plan.

Today we hear from representatives of some of the people most critically affected by the gasoline situation, including motorists,

service station operators, and farmers. On Thursday we shall meet with John Sawhill, Deputy Director of the Federal Energy Office, among other witnesses. We shall pose to him some of the questions I have raised today, and some of the observations that will be brought to our attention by the witnesses today.

Our first witness is Mr. John de Lorenzi, managing director, Public Policy Division, American Automobile Association.

STATEMENT OF JOHN de LORENZI, MANAGING DIRECTOR, PUBLIC POLICY DIVISION, AMERICAN AUTOMOBILE ASSOCIATION, ACCOMPANIED BY CHARLES CAMPBELL, DIRECTOR, LEGAL DEPARTMENT; AND WILLIAM BERMAN, ENVIRONMENTAL AFFAIRS DEPARTMENT

MR. DE LORENZI. Thank you, Mr. Chairman. I am accompanied by Charles Campbell, director of our legal department, and Mr. William Berman of our environmental affairs department. I would like to submit our prepared statement for the record.

CHAIRMAN HUMPHREY. It will be printed as if read and if you can pick some highlights out of it and summarize it for us now, that would be fine.

MR. DE LORENZI. Yes, sir.

Thank you, Mr. Chairman, we are pleased to participate in this hearing on the consumer reaction to the energy crisis, and want to comment on some things that are being done now in an attempt to alleviate the crisis. As an organization the AAA has long been concerned with the energy crisis and has adopted a policy which you will find in the text of our prepared statement, so I will not read it.

Last May the AAA started what we call the fuel gage report, which monitors gasoline supply conditions in all States but Alaska by contacting large numbers of gasoline stations each week, to learn how they and motorists were being affected by the fuel pinch.

We launched this project because there were no reliable figures available on fuel supplies from either the government or the oil industry, and motorists were bewildered. We also wanted to end rumors about fuel shortages, which were causing considerable economic damage to tourism. The best way of finding out what really was happening at the gas pump was by interviewing the gasoline station operators themselves. That is the basis of the fuel gage report—what motorists and gasoline dealers are experiencing, not speculation.

At present, we survey more than 5,500 stations every week and the results are made available not only to our 16 million members but to the general motoring public through the cooperation of the news media. And in this week's fuel gage report, now being compiled, we have contacted 6,000 stations.

Because of this ongoing program and our continuing contacts with people in government and the oil industry, we are fully aware of the problems of the energy crisis.

Even if the Arab boycott ends, we are convinced that a gasoline "pinch" will continue though it will not be of the magnitude of the

present crisis. People will still have to conserve. The reason is simple: Consumption has been rising every year but refinery capacity has not. Some time ago we called upon members and the American public to reduce use of their automobiles voluntarily by at least 25 percent in ways least inconvenient to them individually.

Now, from various indices including gasoline tax receipts, toll road receipts, et cetera, we know Americans are traveling less right now and we believe a good deal of the decline is due to their own voluntary efforts besides the shortage itself.

Let's look at the Government's efforts. First there's the petroleum allocation regulations designed to distribute fairly across the country whatever gasoline supplies are available. They are not working very well.

Let's look at the month just finished, February. If the allocation system really worked, every State in the Union would have received 84.3 percent of its February 1972 gasoline supply. Instead, if you can believe the figures, they range from a low of 77.3 percent in Maryland to a high of 97.4 percent in your State of Minnesota.

Chairman HUMPHREY. Might I correct that? The fact is that, when you really got the arithmetic straightened out, it was only 86 percent in Minnesota.

Mr. DE LORENZI. I was going to say I heard they were being challenged.

Chairman HUMPHREY. I wouldn't mind for my own purposes saying we got 97 percent.

Mr. DE LORENZI. I am going to make some further comments on these figures as we go along.

Chairman HUMPHREY. Yes, sir.

Mr. DE LORENZI. While we realize that no allocation plan is going to be altogether right and efficient, the variables built into this one through administrative decree, congressional action and political arm twisting have considerably dampened the prospects of its working properly.

The Federal Energy Office has protested publicly that comments about allocation not working are unfair since the program has just gotten underway. It promises better results in the future. FEO has just released its allocation figures for the month of March and says the Nation will be getting more gas. On the surface, when you look at those figures, things do look better. But this is only on the surface.

March's national allocation will be 89.6 percent of March 1972 levels, up 5.3 percent from the final national average for February, which was bolstered in several states by additional emergency supplies.

Since the figures have just been released—we just received them Friday—we have been able to make only a cursory check, but we have some findings we would like to share with you.

Delaware, which received 79 percent of its February 1972 sales last month, will get 98 percent of its March 1972 quota. In gallons, this is an 0.8 million gallon increase. Because March has 31 days as against 28 for February, it means 6.3 percent less gasoline available on a daily basis for the month.

Chairman HUMPHREY. Than in February?

MR. DE LORENZI. Yes, Florida—which depends on the tourist trade—will receive 85 percent of its March 1972 quota as against 86 percent of February 1972 last month. However, this translates into an increase of 26.3 million gallons of gasoline over February. But when calculated on an average daily basis, it means 2.3 percent less gas available each day.

Even more startling is the situation in New York State. It will receive 90 percent of its March 1972 allotment as against 81 percent in February, yet will find this means 6.8 percent less gas each day, even though it is receiving 14.9 millions gallons more during the month.

Chairman HUMPHREY. Now, just to clarify that, the reason is that February had only 28 days and we are talking about 31 days in March.

MR. DE LORENZI. That's correct. The FEO showed the increase in gallonage and also gave a percentage figure based on 1972 consumption for the month without saying whether it was an increase or decrease in the allotment per day. The monthly gallonage has increased. But actual amount per day has not. Out of the 51 States and the District of Columbia, by our figuring, 23 would receive a decrease and 28 would get an increase. Your State, by the way, Senator, according to our figures, will get a decrease over its previous—

Chairman HUMPHREY. I protest that immediately.

MR. DE LORENZI. We have found out something else of interest. As I said, we received these figures on Friday. We got them from the FEO, as well as some of the news media. It was called to the attention of FEO that there seems to be this discrepancy about additional gallonage which translates into a decrease in actual amounts of fuel per day. We learned as of 4:30 p.m. yesterday that they are revising these figures and will have new figures on Wednesday. What they will be we do not know.

There is still one more important point to make. These quota figures are set after a great deal of gasoline has already been withheld. Under FEO regulations petroleum companies must hold back 3 percent of supplies for an emergency reserve, which includes the set-asides, while a very large amount—it may run higher than 20 percent—must be given first of certain priority groups. These include agriculture, police, firemen, and emergency services but not bulk commercial purchasers, who will be allowed 100 percent of their needs. The latter must take their chances with their own suppliers.

Now, a major inequity in the allocation system is the use of 1972 base period. It is unrealistic. A case in point is Gaithersburg, Md. In February, it received 80 percent of its 1972 sales. However, Gaithersburg has had a population increase of 50 percent since then, so in effect, in simple arithmetic, it received only a 40-percent allocation when measured against its increased growth. The 1972 period was mandated in the Emergency Petroleum Allocation Act, but in going through the House Commerce Committee report on the bill we note it states that another base period could be substituted. We hope the FEO will pay attention to that. Recent dispatches quote Energy Chief William Simon as saying that FEO will be taking into account population growth or increased car registrations in future allocations. This is a step forward.

We also hope the FEO will look into its priority allotments to see if they are being used properly or not. We want to know if the States are actually drawing on their full allotments. We have some reports, though we have been unable to verify them as yet, that they are not. So some of that gas is not being used. Besides reexamining the base period, we would hope that FEO also would seek answers for the following questions: Are the States drawing on their full allocations? What controls have been instituted to see that emergency users really are using their supply for emergencies? And have they properly justified their need? We cannot find any particular mechanism that checks back on this.

Now, FEO originally planned on setting up guidelines to distribute refined petroleum products only but this was changed by passage of the Emergency Petroleum Allocation Act which mandates a crude oil allocation program as well. The intent of this, as we understand it, was to insure that independent refiners would not be forced to close down because of lack of supply.

To carry this out, a formula was developed that determines which companies have to sell their so-called "excess" crude oil to others. This "excess" is sold at a weighted overall average price plus a handling fee. This has caused a drop in imports, we have been advised, because many companies claim they have either been selling at a loss or see no reason to import oil which FEO will force them to pass on to someone else. This, of course, has decreased the available supply.

The crude oil allocation program also seems not to have increased the domestic supply of crude. Experts from both the oil companies and the Government have candidly termed the program a "disincentive." We hope that Mr. Simon and Congress will modify the program so that the fuel supply will be increased. We know Mr. Simon has proposed some changes and modifications to the Congress.

In various States, long lines of cars waiting their turn at the gas pump have caused traffic jams and frayed tempers and have forced some States to take rationing actions on their own. To cope with the lack of fuel supply, 15 States and several counties and municipalities have instituted some form of odd-even rationing plan, popularly known as the Oregon Plan. Basically, it matches the last digit of the license plate to the date so that even numbers can get gas on even dates and so on. The aim of all of these plans is to reduce the long lines of motorists at filling stations. This too does not always work. We think the rationale for the plans is that they cut in half the amount of time available for a motorist to search for gas without increasing the hours of operation of gas stations.

Based on our own experience with the fuel gage reports last summer, delegates to last year's AAA annual meeting recognized the need to make certain that fuel is available at regular times even during a crisis period. They adopted a resolution dealing with gasoline station operating hours which you will find in the text of my prepared statement.

We believe that panic buying and long lines can be diminished considerably if gas station operators and local governments see to

it that gas is available somewhere throughout the day. Special openings to take care of morning and evening rush hours should be part of any such voluntary plan and the schedules should be well publicized.

The idea that motorists should not be eligible for gas unless their fuel gage registers half full or less has merit as it prevents people from pulling into a station to "top off" the tank. But if there is to be a minimum, there should be no maximum wherever possible. If the motorist coming in with less than half a tank is allowed to fill up he will not be back in line several days later as occurs when he is restricted to a maximum purchase of \$2 or \$3. The \$2 purchase with gasoline costing 60 cents is only about 3 1/3 gallons.

Every station also should be urged to employ channelization whereby all traffic entering a station must do so at one entrance point only, with traffic lines forming on the least congested street area. That would eliminate the confusion caused by motorists jockeying for position as they enter the station from different directions.

Further, to aid the motorist, the hours a station is open should be prominently displayed. If there are to be limitations on the amount of purchase this too should be noted in a highly visible manner.

Those who should be exempted from the odd-even regulations, as we see it, are emergency services such as police and firemen as well as garages and organizations, such as our own and others, that render emergency road service to motorists stranded with disabled vehicles. We also think it should not be considered a violation of the law to deliver gasoline to a stranded motorist with even numbered tags if he is stranded on an odd numbered day and the reverse.

Finally, we believe that cars with out-of-State license plates, passing through the area, should be exempt from the odd-even regulation so that tourism, a \$61 billion industry with more than 4 million employees, will not be unduly penalized.

The country could be well served by FEO's drawing up a set of suggested guidelines to help States standardize their systems. We are not urging Federal legislation, however.

Many stations have ignored the Government's request to stay closed on Sunday. We agree with them and find such closings not in the best interest of the motoring public. Many must travel on Sunday and, if their vehicles break down on the highway, emergency road service often is not available because stations are closed and there are no other facilities.

Sunday closings also work a particular hardship on lower income groups, which often cannot afford a long vacation but have in the past used the 2-day weekend for outings in the family car. The effect on recreation destinations which depend heavily on Sunday traffic has been really and truly disastrous. It has done little to solve the fuel crisis, mostly forcing motorists to tank up on Saturday or Monday and making these days particularly heavy traffic days for filling stations.

Let's look now at gas rationing, which you mentioned in your opening statement, because the premature implementation of such a program would have a distasteful effect on the economy. Further,

the proposed plan is basically unfair since it is not based on individual need.

AAA firmly believes that the go-to-work trip must be given the highest priority in any rationing program since nearly 78 percent of all workers reach their jobs by private passenger car. Those who contend that, if rationing comes, these people can ride mass transit really do not know what they are talking about. In the first place, for 52 percent of those who drive to work there is no mass transit alternative available at all. For many others, mass transit is only marginally available. That is the reason we have been surprised by statements from some Members of Congress calling for rationing immediately.

We also are concerned because there has been little discussion in news media of the plan and its implication. The public should realize that rationing will not increase the amount of fuel available. They should understand that. Implementation of a plan as drastic as the one proposed could have serious effects on their livelihood. It would seem to us that this committee might wish to pursue this matter further publicly.

Chairman HUMPHREY. We intend to do that very much. We are going to have Mr. Sawhill here and others. We intend to pursue the proposal. One of the reasons for this hearing was to get some public information out about any proposed rationing system because it is major surgery, so to speak.

Mr. DE LORENZI. That is right.

Chairman HUMPHREY. And if the Government—if we decide as a public policy to move into rationing, the public ought to be forewarned about what is in store for them, and I happen to feel also that the public ought to have some input before any such system is even listed out in terms of rules and regulations.

Mr. DE LORENZI. We are delighted to hear that. We say the same thing. I am glad we have a sympathetic ear.

Chairman HUMPHREY. You sure do.

Mr. DE LORENZI. In conclusion, the AAA makes the following recommendations:

(1) Congress and the Federal Energy Office should create a positive program whose purpose is to increase our fuel supply. The present program acts as a disincentive.

(2) The crude oil allocation program should be revised so that more of the presently available refinery capacity is being utilized. We are not anywhere near peak capacity.

(3) The contingency gas rationing program proposed by FEO should be based on need, and as you yourself have said, widely publicized and open regional hearings should be held so that people fully understand and will be able to comment on rationing before it affects their lives and jobs.

(4) The FEO should develop some method of continual policing of priority and emergency groups getting 100 percent of current gasoline needs to see if their requests are justified.

That concludes the highlights of our testimony, Mr. Chairman. Thank you for inviting us. We will be glad to answer any questions.

Chairman HUMPHREY. Thank you very much, and of course all of

your prepared statement, including your commentary on the regulations of the FEO, will be included in the record.

[The prepared statement of Mr. de Lorenzi follows:]

PREPARED STATEMENT OF JOHN DE LORENZI

I am John de Lorenzi, Managing Director of the American Automobile Association Public Policy Division. I am accompanied by Charles Campbell, Director of AAA Legal Department, and William Berman of our Environmental Affairs Department.

Mr. Chairman, we are pleased to be invited to participate in this hearing on the consumer reaction to the current energy crisis and to comment on some of the things now being done to alleviate it. The timing of this hearing is excellent since we are approaching the season of the year when gas consumption normally rises.

As an organization, the AAA is deeply concerned with how to deal with this crisis and has adopted the following resolution:

THE NATIONWIDE ENERGY EMERGENCY

The American Automobile Association urges that measures adopted to deal with the nationwide energy emergency be based on the following principles:

1. Officials at all levels of government should recognize the importance of the automobile both as an essential and primary component of transportation systems and as a mainstay of the economy. Recognition of the essential role of the automobile necessarily rules-out the imposition of harsh restrictions on auto use which would make it extremely difficult or impossible for people to get to work, maintain a household and make other essential trips.

2. All agencies of government have a responsibility to keep the public fully and accurately informed as to the extent and duration of the fuel shortage and the need for any extraordinary measures, such as rationing, which may be found necessary to deal with this emergency.

3. To conserve energy, a fully and accurately informed public should cooperate voluntarily and to the fullest possible extent. Cooperation by the motoring public, for example, could take the form of increased use of car pools, speeds and driving practices which economize on fuel and proper automobile maintenance.

4. Government and the petroleum industry have a responsibility to exert every possible effort to increase petroleum supplies and to develop alternative energy sources which will conserve existing supplies.

5. Government officials should reject proposals that would impose excise taxes on automobile or increase motor fuel taxes as a means of conserving fuel because these are regressive approaches which place the burden on those least able to afford it and penalize those who must rely on the automobile to get to work because no other adequate transportation is available.

6. Agencies responsible for the movement of traffic must make every possible effort to eliminate highway bottlenecks and slow-downs that increase fuel consumption.

7. Government agencies have a responsibility to assure that fuel allocations are administered as equitably as possible so as to assure the fairest possible distribution to all regions of the country.

8. Agencies and officials of federal, state and local government should review automotive air pollution controls and other environmental plans in the light of the energy crisis to assure that implementation of such plans do not magnify the current crisis.

9. To avoid the necessity of gasoline rationing, government, industry and the public should make a concerted effort, on a voluntary basis, to conserve limited supplies to the greatest extent possible. If gasoline rationing becomes unavoidable, steps should be taken to assure fairness and impartiality in distributing available supplies.

10. Automobile manufacturers should undertake immediate programs to develop engines that will provide high gas mileage economy and other operating efficiencies which a car owner has the right to expect.

Last May AAA started what we call the Fuel Gauge Report which monitors gasoline supply conditions in all states but Alaska by contacting large numbers

of gasoline stations each week to learn how they and motorists were being affected by the fuel pinch.

We launched this project because there were no reliable figures available on fuel supplies from either the government or the oil industry and motorists were bewildered. We also wanted to end rumors about fuel shortages which were causing considerable economic damage to tourism. The best way of finding out what was really happening at the gas pump was by interviewing the gasoline station operators themselves. That is the basis of the Fuel Gauge Report, what motorists and gasoline dealers are experiencing, not speculation.

We ended this weekly report after Labor Day last year but revived it again in January of this year as its need is more apparent than ever. At present, we survey more than 5,500 stations every week and the results are made available not only to our 16 million members but to the general motoring public through the cooperation of the news media.

Because we are approaching the time when tourism increases, we are expanding the program so that we can give even more detailed information on travel conditions through local AAA clubs. At the same time we will continue the Fuel Gauge Reports for the benefit of the general public.

Because of this on-going program and our continuing contracts with people in government and the oil industry, we are fully aware of the problems of the fuel crisis.

Even if the Arab boycott ends, we are convinced that a gasoline "pinch" will continue though it will not be of the magnitude of the present crisis. People will still have to conserve. The reason is simple: consumption has been rising every year but refinery capacity has not. Some time ago we called upon all American motorists—not just AAA members—to voluntarily reduce use of their automobiles by at least 25 percent in ways least inconvenient to them individually. We have been continuing this campaign through newspaper ads, individual club publications and with the cooperation of local news media stressing how travel budgeting, good driving techniques and proper engine maintenance can enable motorists to save considerable amounts of fuel.

From various indexes, such as gasoline tax revenue, traffic counts and toll road receipts, we know that Americans are traveling less and we believe that a great deal of this is because of their voluntary efforts in this crisis.

Now let us examine the government's efforts. First, there's the petroleum allocation regulations designed to distribute fairly across the country whatever gasoline supplies are available. They are not working very well. Their failure can be attributed to a combination of politics and a too-rigid system of allocation.

Let's look at the month just finished, February. If the allocation system really worked, every state in the Union would have received 84.3 per cent of its February, 1972 gasoline supply. Instead, if you can believe the figures, ranged from a low of 77.3 per cent in Maryland to a high of 97.4 per cent in Minnesota.

While we realize that no allocation plan is going to be altogether right and efficient, the variables built into this one through administrative decree, Congressional action and political arm twisting have considerably dampened the chances of it working properly.

The Federal Energy Office has protested publicly that comments about allocation not working are unfair since the program has just gotten under way. It promises better results in the future. FEO has just released its allocation figures for the month of March and says the nation will be getting more gas. On the surface, things do look better. But this is only on the surface.

March's national allocation will be 89.6 per cent of March 1972 levels, up 5.3 per cent from the final national average for February which was bolstered near the end of the month with additional emergency supplies in several states.

Since the figures have just been released, we have been able to make only a cursory check but even so some of our findings are worth bringing to your attention.

Here are some examples. Delaware, which received 79 per cent of February, 1972 sales last month will get 98 per cent of its March, 1972 quota. In gallons, this is an 0.8 million gallon increase. Because March has 31 days as against 28 for February, it means 6.3 per cent less gasoline available on a daily basis for the month.

Florida, whose arteries pulse to the tourist trade, will receive 85 per cent of its March, 1972 quota as against 86 per cent of February, 1972 last month.

However, this translates into an increase of 26.3 million gallons of gasoline over February. But when calculated on an average basis, it means 2.3 per cent less gas available each day.

Even more startling is the situation in New York state. It will receive 90 per cent of its March, 1972 allotment as against 81 per cent in February yet will find this means 6.8 per cent less gas each day even though it is receiving 14.9 million gallons more during the month.

In George Orwell's book, "Nineteen Eighty-Four," the party of Big Brother had three main slogans. They were: War is Peace, Freedom is Slavery and Ignorance is Strength.

The FEO obviously is guided by a slogan of a similar nature. In the matter of gas allocations, it is saying: Less is More.

There is still one more important point to make: These quota figures are set after some gasoline already has been withheld. Under FEO regulations, petroleum companies must hold back 3 per cent of supplies for an emergency reserve while a very large amount—it may run higher than 20 per cent—must be given first to certain priority groups. This includes agriculture, police, firemen, emergency services but not bulk purchasers. The latter must take their chances with their suppliers.

A major inequity in the allocation system is the use of a 1972 base period. It is unrealistic. A case in point is Gaithersburg, Maryland. In February, it received 80 per cent of its 1972 sales. However, Gaithersburg has had a population increase of 50 per cent since then so, in effect, it received only a 40 per cent allocation if measured against its increased growth.

The 1972 base period was mandated in the Emergency Petroleum Allocation Act but the House Committee Redort on the bill notes that another base period could be substituted. We hope the FEO will take note of this. Recent news dispatches quote Energy Chief William Simon as saying that FEO will be taking into account population growth or increased car registration in future allocations which is a step forward.

Besides re-examining the base period, we would hope that FEO also would look into its priority allotments to see if they are being used properly or not. Are the states drawing on their full allocation? What controls have been instituted to see that emergency users really are using their supply for emergencies? And here they properly justified their need?

FEO originally planned on setting up guidelines to distribute refined petroleum products only but this was changed by passage of the Emergency Petroleum Allocation Act which mandates a crude oil allocation program as well. The intent of this, as we understand it, was to insure that independent refiners would not be forced to close down because of lack of supply.

To carry this out, a formula was developed that determines which companies have to sell their so-called "excess" crude oil to others. This "excess" is sold at a weighted over-all average price plus a handling fee. This has caused a drop in imports, we have been advised, because many companies claim they have either been selling at a loss or see no reason why they should import oil which FEO will force them to pass on to someone else. This has decreased the available supply.

The crude oil allocation program also seems not to have increased the domestic supply of crude. Experts from both the oil companies and the government have candidly termed the program a disincentive. We are not expert enough to understand all the reasons for this but are convinced that domestic production has not increased as it should. We hope that Mr. Simon and Congress will modify the original program enough so that the fuel supply is increased.

STATE ACTIONS

Long lines of cars, some stretching as long as a mile, waiting their turn at the gas pump have caused traffic jams, frayed tempers and forced some states to take actions of their own.

To cope with the lack of fuel supply, 15 states and several counties and municipalities, have instituted some form of an odd-even rationing plan. Basically, it matches the last digit of the license plate to the date so that even digits can only get gas on even dates and so on. The aim of all of these plans is to reduce the long lines of motorists at filling stations. This does not always work.

The reason is that the plan cuts in half the amount of time available for a

motorist to search for gas without increasing the hours of operation of gas stations. Out of our own experience with the Fuel Gauge Reports, the delegates to last year's AAA Annual Meeting recognized the need to make certain that fuel is available even during a crisis period. They adopted the following Resolution:

"RD-11. GASOLINE STATION OPERATING HOURS

"The American Automobile Association recognizes growing worldwide energy problems and views with particular concern their impact on gasoline availability for motorists.

"National gasoline supply uncertainties are manifested in the increasing numbers of the gasoline stations which are reducing night-time and weekend hours of operation and limiting amounts of fuel motorists may purchase. In some communities and along some major travel routes there are no gasoline stations open for numerous hours of the day.

"AAA calls upon state and local governments and the oil industry to develop plans to assure that some gasoline stations always are operating and with ample supplies along every major travel route. Such a plan, which could involve the voluntary rotation of operating schedules by stations in a given area, would help to eliminate serious motorist inconveniences and aid in emergency situations at all hours of the day."

We believe that panic buying and long lines can be diminished considerably if gas station operators and local governments see to it that gas is available somewhere throughout the day. Special openings to take care of morning and evening rush hours should be part of any such voluntary plan and the schedules should be well publicized.

The idea that motorists should not be eligible for gas unless their fuel gauge registers half or less has merit as it prevents people pulling in to a station to "top off" the tank. But if there is to be a minimum, there should be no maximum wherever possible. If the motorist coming in with less than half a tank is allowed to fill up he will not be back in line several days later as occurs when he is restricted to a maximum purchase of two or three dollars.

Every station also should be urged to employ channelization whereby all traffic entering a station must do so at one entrance point only, with traffic lines forming on the least congested street area. This would eliminate the confusion from motorists jockeying for position as they enter stations from different directions.

To aid the motorist, the hours a station is open should be prominently displayed. If there are to be limitations on the amount of purchase this too should be noted in a highly visible manner.

Those who should be exempted from the odd-even requirements are emergency services such as police and firemen as well as garages and organizations that render emergency road service to motorists stranded with disabled vehicles. It should not be considered a violation of the law to deliver gasoline to a stranded motorist with even numbered tags on an odd numbered day and the reverse.

Finally, we believe that cars with out-of-state license plates, passing through the area, should be exempt from the odd/even regulation so that tourism, a \$61 billion industry with more than 4 million employees, will not be unduly penalized.

The country could be well served by FEO drawing up a set of suggested guidelines to help states standardize their systems. Standardization would aid the traveler. As an example, most states use the date to determine if a day is odd or even but in North Carolina Monday, Wednesday and Friday are odd with Tuesday, Thursday and Saturday being even regardless of the date and with Sunday a free day.

Speaking of Sunday, many stations have ignored the government's request to stay closed on that day. We agree with them and find such closings not in the best interest of the motoring public. Many must travel on Sunday and if their vehicle breaks down on the highway emergency road service often is not available since stations are closed.

Sunday closings also work a particular hardship or lower income groups who often cannot afford a long vacation but have in the past used the two-day weekend for outings in the family car. The effect on recreation destinations which depend heavily on Sunday traffic has been disastrous. It has done little to solve the fuel crisis mostly forcing motorists to tank up on Saturday or Monday, making them particularly heavy traffic days for filling stations.

GAS RATIONING

On January 16, 1974, the FEO published in the Federal Register a gasoline rationing contingency plan. The AAA commented on the proposed plan and I have attached to this testimony a copy of those comments and would like to refer you to them.

AAA believes that rationing should be a last resort because the premature implementation of such a program would have a disastrous effect on the economy. Further, the proposed plan is basically unfair since it is not based on need.

AAA firmly believes that the go-to-work trip must be given the highest priority in any rationing program since nearly 78 percent of all workers reach their job by private passenger car. Those who contend that, if rationing comes, these people can ride mass transit do not know what they are talking about.

In the first place, for 51.7 percent of those who drive to work there is no mass transit alternative available at all. For many others, mass transit is only marginally available.

The 1970 census data shows that about 4.2 million workers used buses and street cars as their major means of transportation to work. At the same time, just under 60 million others were reported as using the private passenger car as their dominant mode of travel to work. If an attempt was made to shift only half of these workers to public transit, how in the world could a system now handling 4.2 million people suddenly absorb nearly 30 million more?

This is one of the reasons we have been surprised by statements from some members of Congress calling for rationing immediately. We also are concerned that there has been little discussion in the news media of the plan and its implications. The public should realize that rationing will not increase the amount of fuel available. They should understand that the implementing of a plan as drastic as the FEO's could have serious effect on their livelihood. It would seem to us that this committee might wish to pursue this matter publicly.

In conclusion, the American Automobile Association makes the following recommendations:

(1) Congress and the Federal Energy Office should create a positive program whose purpose is to increase our fuel supply. The present program acts as a disincentive.

(2) The crude oil allocation program should be revised so that more of presently available refinery capacity is being utilized.

(3) The contingency gas rationing program proposed by FEO should be based on need, and widely publicized open regional hearings should be held so that people will fully understand and be able to comment on rationing before it affects their lives and jobs.

(4) The FEO should develop some method of continual policing of priority and emergency groups getting 100 percent of current gasoline needs to see that their requests are justified.

Thank you, Mr. Chairman, for inviting us to appear. We hope that our comments added perspective to your deliberations.

Enclosure.

AMERICAN AUTOMOBILE ASSOCIATION,
8111 Gatehouse Road, Falls Church, Va., January 30, 1974.

Mr. WILLIAM E. SIMON,
Administrator, Federal Energy Office, Washington, D.C.

DEAR MR. SIMON: The gasoline rationing contingency plan of the Federal Energy Office is described in the Federal Register of January 16, 1974 as being not "a proposed regulation but rather as a vehicle for further comment and discussion." Within that frame of reference, the American Automobile Association welcomes the opportunity to make some comments and put forth some general observations regarding gasoline rationing.

The AAA believes rationing should be an absolute last resort and feels that any premature implementation of such a program would have a disastrous effect on the economy.

To force the country into such a restrictive program before the need has been demonstrated clearly (as some in Congress and the news media have

urged) is the height of irresponsibility. AAA calls for a detailed public discussion in advance of the criterion which will be used to determine if a rationing plan will be put into effect.

Beyond this, AAA firmly believes that the go-to-work trip must be given the highest priority in any rationing program since nearly 78 percent of all workers reach their job by private passenger car.

Let us now turn to the specifics of the proposed rationing plan as it appears in the Federal Register even though it has since then been augmented through numerous press conferences held by FEO officials.

Our overall comment: the plan is basically unfair since it is not based on need.

Coupon Allotment

AAA believes that the issuance of the same amount of coupons in a given area to every licensed driver 18 years or older is unsound. Its initial appeal was that it would be simple to administrate. However, we believe its end results would be chaotic.

Additionally, the proposed plan also would base the allocation of coupons on a formula that takes into account the size of the communities and the adequacy of public transit systems in various communities. It could mean as much as 20 percent less gas for the area motorist.

On the surface, using a formula which is related to transit availability sounds fair. This formula is not. The plan's transit factor is a statistical shell game which overstates the availability of the transit alternative for most urban area residents.

First, the stated formula equates the total urbanized population with the total area transit passengers. The area population, however, is counted only once while the resident who uses transit is counted each time he boards a transit vehicle throughout the year. In this way, the same person may be counted 400 or more times if he regularly uses transit for his daily work trip. The high numbers that result give a distorted view of transit use and availability while ignoring transit's lack of availability for great segments of the urban areas.

For example, the Journey to Work Study recently released by the U.S. Census Bureau shows that in Washington, D.C., only 25 percent of the workers in the metropolitan area live in the central city and they use public transit in 28 percent of their go-to-work trips. Only 8 percent of suburban residents use transit in their work commute yet they make up the other 75 percent of the workers of the metropolitan area.

Transit is convenient for D.C. residents because of readily accessible buses, short runs and routes that take them where they need to go. The same does not apply to the suburbs.

One of the errors of the present formula is it lumps together both the suburban resident and the resident of the central city as if transit service levels were uniformly available throughout the metropolitan area. That just isn't so.

And to reduce the gas allocation because the area is theoretically served adequately by public transportation is to ignore reality. It would penalize those in the suburbs who need the gas and cannot take transit and reward those in the central city who have a lesser need because of more readily available public transportation.

This moves us to raise another question: why isn't the driving distance to work used as part of a weighted formula in determining the gasoline ration for motorists? Calculations based on figures in a study of home-to-work trips issued by the U.S. Department of Transportation show that in our top 35 Standard Metropolitan Statistical Areas nearly 23 percent of workers drive more than 30 miles a day round trip to their job while an additional 10.6 percent drive between 22 and 28 miles round trip every day.

These figures are distorted because they are the average of all 35 SMSAs and do not reflect the even greater differences of an SMSA in the Southwest or Far West, where the driving distances are greater, as compared to a compact Eastern SMSA.

To help correct the inequities cited, AAA recommends that any transit factor be limited to a formula applied only to the central city of a SMSA. The suburban part of the SMSA should be placed on par with those areas considered rural in considering gasoline allocation. The length of the trip to work, based upon regional averages rather than a national one, also should

be considered in determining the amount to be allocated to a region. Finally, the factoring of the transit user some 400 times and the non-user only once is an abuse of the statistical process and should be eliminated.

DEFINITIONS

While the definitions in this section are general in nature, we assume they are an extension of the more detailed definitions used in the petroleum allocation regulations issued by FEO on January 15, 1974. If this is so, we again must point out that non-governmental service vehicles rendering emergency breakdown or road service should be included specifically under the "emergency service" definition.

We also think that these emergency road service vehicles should be eligible for 100 percent of their current fuel requirements under any rationing program since it is the public interest that emergency service be available to motorists wherever and whenever disablement occurs.

COUPONS

Since coupons will be required only for retail purchases, there could be abuses by those who have access to gasoline through bulk purchase. This would become a source of discontent quickly if those with coupons found that there were not sufficient supplies at retail stations. For reasons of credibility, those who qualify for bulk purchase gasoline should be made as accountable as the rest of the nation's licensed drivers.

The idea that the value (or gallonage) of the coupons might vary depending upon the gasoline supply is a sound one. It should not, however, penalize those who through self-rationing are able to save their coupons for other purposes such as a vacation.

As an example, someone who has saved a five gallon coupon should not have the value of that coupon shrink the next month when all coupons would be worth, say, only three gallons. The computer computation which determines the amount of supply for the next period also should take into account the amount of unused coupons still out and adjust its estimates accordingly.

Making coupons freely transferable is a sound policy and gives a degree of flexibility needed in any rationing program adopted.

Present plans call for the quarterly issuance of three months worth of coupons. Consideration should be given to issuing coupons every four or six months to cut down on the time motorists would have to spend at distribution centers. A staggered system of issuance also should be adopted to eliminate long waiting lines and to prevent the rapid draining of gasoline supplies which would occur if all the coupons were issued in a short time span.

The requirement that coupons can only be picked up in the state where the driver's license was issued would be a genuine hardship on salesmen and others who must travel for a living. It also would have a withering effect on tourism.

While the published plan says nothing about a fee, in various news conferences FEO officials have talked about a \$12 a year charge for the coupons. Originally the charge would have been \$1 a month, when the plan was a monthly issuance of coupons, but now there is a proposal for a \$3 charge each quarter.

Since there are more than 114 million licensed drivers 18-years or older, this would mean revenues of more than \$1 billion 368 thousand, a rather large sum to support a staff which FEO officials have estimated would be no more than 17,000, if that. The austerity of the rationing program should be reflected in the austerity of its administration. We would like to know how the money is going to be spent.

Some of the knotty problems seem to have been delegated to the states to take care of in their State set-aside program. In this, each state initially would set aside five percent of its monthly allocation of coupons for various uses.

One of these would be to supply coupons to foreign visitors. In our mind, this is a duty of the Federal government and their issuance should not become mired in a bog of conflicting state regulations.

AN ALTERNATE APPROACH

The appeal of the proposed rationing plan is that it would seem to be simple to operate. It also could cause the economy to grind to a halt. AAA believes that the basis for any rationing system should not be equal distribution but a priority system with top priority going to the wage earner who drives to work.

In a study of home-to-work trips issued by the U.S. Department of Transportation, the national average shows that 51.7 percent of all those who drove to work said that public transportation is not available.

Many others drive to work because public transportation in their area either took too long, did not go where the worker wanted it to or simply was not available often enough on a regular schedule.

While the FEO is to be lauded for its intentions of keeping industry going during the fuel crisis, there is no point in it if the great majority of workers who run it are unable to get to work.

That is the reason any rationing program should first assure an adequate supply of gasoline for go-to-work trips and this amount should not fluctuate from month to month. Any fluctuation should be in the remaining fuel allocated for other driving purposes.

Instead of equal issuance of coupons, the go-to-work ration should be based upon the mileage the wage earner must drive to and from work with an additional or lesser amount (as the case may be) based upon the weight of the car. Obviously, a Buick owner would need more gas than a Volkswagen owner.

The above is predicated on the hope that rationing would be needed for a short time only. If it were to continue, we would recommend that after the first year the bonus ration for the heavier car be reduced in order to encourage drivers to switch to cars with greater gas economy. This also presupposes that manufacturers will have developed more efficient engines and designed cars that get greater gas mileage without sacrificing safety.

In this computer age, it should not be too difficult to work out a fair program of this nature. Certainly, employers should be willing to do the necessary screening of their employees to help determine gas needs and curtail the need for a large government staff.

Though we have acknowledged the FEO's desire to keep business operating, we also think it has failed to properly recognize the role of the travel industry in the economy. It is the industry without the smokestack, which probably is the reason it has been paid little heed, but its sales have a great multiplier effect throughout any community. We think there should be a provision for a special or additional ration to be issued a family once a year for vacation purposes, on application.

After the amount needed for the driver/wage earner has been determined, an allocation would be made in descending order to other licensed drivers. This could include such categories as families with no-driving children, the minor who has to drive to work after school and others. Variations could easily be worked into this program but all would be based on a needs premise.

It is this general category after the driver/wage earner which would be cut if fuel supplies tightened and would expand when they increased giving the plan the amount of flexibility needed to adjust to change without too severely damaging the economy.

Finally, any statistics used in setting up such a program should be regional in nature rather than lumping all of them together to come up with some mythical national average which does not take reality into account.

Yours sincerely,

JOHN DE LORENZI,
*Managing Director,
Public Policy Division.*

Chairman HUMPHREY. Just one quick observation. You commented about the Gaithersburg, Md., situation and, of course, it is a very striking example. Isn't there, however, a provision in the law for supplies to new gas stations and a correction for the number of new auto registrations in each State?

Mr. DE LORENZI. Yes, there are those provisions by FEO. Mr. Simon has said in the news media that he will be taking these things into consideration. However, as far as we know they have not been taken into consideration in the formula so far. It should be based on new car titles, registration, population increase, et cetera.

Chairman HUMPHREY. In other words, the legal authority is there but the administrative action hasn't been taken?

Mr. DE LORENZI. The formula that they are using is faulty.

Chairman HUMPHREY. Also isn't that State set-aside intended to deal with these problems among others?

Mr. DE LORENZI. Yes; it is, but that is not always working either. As I said, we have heard some reports that certain States have not used their State set-asides or used very little of it. It seems to us that one or two things should be done if they are not going to use it. It either should go back into the pump for the public use or, possibly, be used in some other State that needs it badly.

Chairman HUMPHREY. In other words, you are saying there ought to be close monitoring of this.

Mr. DE LORENZI. That is relatively easy to do as we understand it, because the refineries merely hold the stock for the States. It is not delivered to them until they need it.

Chairman HUMPHREY. Right. Now you mentioned a program—you said we ought to have a program to increase the fuel supply and we ought to have maximum use of our refineries. Do you have any specifics in mind there, Mr. de Lorenzi?

Mr. DE LORENZI. The FEO in implementing the crude oil allocation program has come up with a formula that I don't know all the in's and out's about but which basically sets an arbitrary rate of refinery utilization so that everybody in the country gets enough crude to operate at, let's say, 76 percent.

Well, the more efficient refineries, such as those that produce jet fuel, are penalized in effect. They are only operating at 76 percent, while they could be operating at 85 percent and supplying badly needed jet fuel. It is the way the program is set up. It doesn't seem to be working out.

Chairman HUMPHREY. On the matter of increasing fuel supply, you feel that we have at present a system of disincentives and we ought to have incentives?

Mr. DE LORENZI. Yes. Generally it works out to be a disincentive. Why should somebody import crude if he is going to have to pass it onto somebody else? He has no incentive to do that.

Chairman HUMPHREY. By the way, are you in close consultation with the FEO; the Federal Energy Office?

Mr. DE LORENZI. We are in almost daily contact with various levels of the FEO. Some of the relationships are quite satisfactory, some of the others are unsatisfactory. There is quite a bit of change-over in personnel, as you know. We also find it difficult at times to get the answers when we need them.

I think perhaps Mr. Campbell can comment on that.

Mr. CAMPBELL. One area which we have been trying to clarify is whether or not our emergency service vehicles qualify for all of the gas they need under the highest priority; that is, the definition

of emergency services. And we have been negotiating and dealing with the Office for almost 3 months now in attempting to clarify that matter. Earlier Mr. Sawhill and Mr. Simon gave assurances to Mr. de Lorenzi and our executive vice president that they thought these vehicles should be included and should receive all the gas they need. But in getting this down on paper we have been working for 3 months now and still have no answer.

Chairman HUMPHREY. When we have Mr. Sawhill here the day after tomorrow we will try to clarify this, to get this pinned down. There is no reason that I can see that your vehicles, your emergency vehicles shouldn't qualify for emergency service. That is exactly what they are for.

Mr. DE LORENZI. Exactly. We pointed out to them that there are 84 million breakdowns a year on American highways. Somebody has to take care of them. In most of the States that have the odd-even plan we have favorable State rulings in this matter because they recognize the need.

Chairman HUMPHREY. If you have a breakdown in some places, you don't have any car left when you come back to pick it up.

Mr. DE LORENZI. Absolutely.

Chairman HUMPHREY. Some people really can cannibalize one of those machines in a hurry.

Let me ask you, Mr. de Lorenzi, to clarify an important aspect of your testimony; namely, the size of the March gasoline allocations relative to demand. You say the Federal Energy Office is dealing in "double think" and trying to convince us that less is more. I went into this briefly with you, but we need a little more clarification. March allocations apparently will be a higher percentage of us in the 1972 base period than was true in February in the two States mentioned—specifically I believe it was Delaware and New York—the percentages for March are much higher, yet you say their supplies will be less per day than in February. That goes back to the number of days, is that correct?

Mr. DE LORENZI. That is right. You take the amount of fuel that was available in February, divide by 28, take the amount of fuel available in March, divide by 31, and then divide the final March figure into the final February figure. This gives you the percentage of February's use available in March. In 23 cases it is to go down. As I said, I talked to the FEO at 4:30 p.m. yesterday, and they are revising their figures but we don't know how.

Chairman HUMPHREY. Yes. They are supposed to have those revised by Wednesday, is that right?

Mr. DE LORENZI. That is what they said.

Chairman HUMPHREY. We may be able to get a little information by the time of our next hearing. Let me now back up a little bit. At the end of each month there generally seems to be a very serious problem of short gasoline supplier. Do you expect these difficulties to return towards the end of this month as they have in each previous month since November?

Mr. DE LORENZI. We hope that some of the filling stations have learned from this and will allocate better. I am sure they will. On

top of that, there was a good deal of panic buying. People get into lines because the maximum purchases allowed are much too low. They were forced to go back in line, and every time they saw a line they automatically got into it. We do think some of that has evaporated and we hope the situation will be better at the end of this month than it was last month.

Chairman HUMPHREY. Do you think the rule of delaying price adjustments until the first of each month may have something to do with these problems that come at the end of the month?

Mr. DE LORENZI. I imagine the retail operators can address themselves to that better than we can. I myself don't think so, personally.

Chairman HUMPHREY. If wholesalers and retailers postpone sales in the last week of each month they would get a better price after the first, wouldn't they? I mean, when you have price adjustments on the first of the month?

Mr. DE LORENZI. I imagine so but I don't expect that will be happening every month. Are you referring to the most recent one, the 2 cent increase?

Chairman HUMPHREY. Yes. The present system is that price adjustments are delayed until the first of each month, and there always seems to be a shortage of gasoline at the end of the month. There is a natural suspicion that there is some holding back for the last week, simply in order to get the advantage of a better price the first of the next month.

Mr. DE LORENZI. Again I really cannot address myself to it. I really think that is probably—the retail operators can give you information on that. I have no way of knowing.

Chairman HUMPHREY. We will go into that. I didn't know if your people had commented on that at all.

Mr. DE LORENZI. We did ask price when we asked our questions for the fuel gage report but we never got into that particular area.

Chairman HUMPHREY. In your testimony you say that, even if the Arab embargo ends, you expect the gasoline pinch to continue. Yet the latest API figures show that the gasoline stocks increased sharply in the last week of February and that they are now about 10 million barrels, that is 4.4 percent, greater than at this time last year.

Based on what you know about gasoline stocks and conservation and other factors bearing on this situation, how great do you expect this pinch to be?

That is question No. 1.

Mr. DE LORENZI. Well, let me backtrack a bit. Last year when we were doing the fuel gage report we estimated that there might be a shortfall of 6 percent, possibly, during the summer months when travel was at its peak. I think we have one unknown factor involved here. We think there will be a pinch. How great I don't know. It could be made worse if people learn that the Arab embargo is over and believe there is no need for them to conserve. We think it is most important that people realize they must continue to conserve and use their gas as economically as possible. If they don't, it could aggravate any shortage occurring otherwise.

Chairman HUMPHREY. And it could become cumulative in the months ahead?

Mr. DE LORENZI. Very definitely.

Chairman HUMPHREY. This is a very important point to make. The pinch is on, Arabs or no Arabs.

Mr. DE LORENZI. Right. And even if you get all the oil you want it is a matter of refinery capacity which has not been increased, and we can't use a lot of the oil from foreign refineries. It often does not come up to our standards. The public expectation might be greater than reality.

Chairman HUMPHREY. Will the working man at least be able to take a restricted traveling vacation without worrying about where the next tank of gas is coming from next summer?

Mr. DE LORENZI. We certainly hope so. I think everybody has been predicating his thinking on the Arab embargo being lifted in the near future. If it isn't, all bets are off. We are expanding our fuel gage report in particular to increase its coverage so that we can give detailed travel information with daily changes to the traveler in order to help the tourism industry and to help the traveler who wants to make a trip, because we think vacation time is important.

Chairman HUMPHREY. Do you think it would be helpful if the FEO were to standardize some of these guidelines and some of these rules?

Mr. DE LORENZI. Yes, absolutely.

Chairman HUMPHREY. Across the country?

Mr. DE LORENZI. An example is North Carolina, which has an odd-odd-even system. Instead of using the date to determine whether it is an odd or even day, Monday, Wednesday and Friday are odd I believe, and Tuesday, Thursday, and Saturday are even. Now, you only know that if you live in North Carolina, and read the newspapers.

Chairman HUMPHREY. And you surely wouldn't know it if you were going to travel let's say from Virginia to North Carolina or Maryland to North Carolina.

Mr. DE LORENZI. That is right.

Chairman HUMPHREY. The amazing thing to me is that practically all of the innovations that have taken place in the allocation program, have come from the State and local governments, and I would hope that after a period of time the Federal Energy Office would be able to put those together, so to speak, those that seem workable.

Mr. DE LORENZI. I would agree.

Chairman HUMPHREY. And then they should call in the Governors and others and say, "We are going to try to standardize certain things here so that the traveler that may live 50 miles on one side of a State line will know what is going on 100 miles away in the other States." You have got some standardization. There just isn't any at present.

Mr. DE LORENZI. We agree. We think the FEO should learn from the first-hand experience of the States in these matters.

Chairman HUMPHREY. Take the situation here in the District of Columbia. We have a certain number of stations open at critical

hours, impact hours, heavy travel times of day. Some States don't have that. If that is working, and if it seems to have some effect, a beneficial effect, it might be a good plan to put into effect across the country.

Mr. DE LORENZI. The worthwhile schemes certainly should be shared.

Chairman HUMPHREY. I suppose our Energy Office people will tell us that they just haven't had time recently. But I want to go back and say on this that I was one of those who long advocated an allocation system even knowing that it would have its problems. A rationing system would have even more problems. But we urged them to get ready ahead of time and to equip themselves with personnel and to test, so to speak, what would work. There were months of delay here. Everybody knew we were going to have to go into an allocation system even before the Congress passed the law. We got into a big to-do around here between the two Houses of Congress and the administration on what kind of law we ought to have but it was perfectly obvious we were going to go into some form of allocation. We had to. There was no other way out. Whether it was voluntary or compulsory or whatever, we had to do something, and yet the Federal Government really just was dragging its feet, was not putting together a program. I know that our Federal Energy Office out in Chicago, the Regional Office, was staffed by pick-ups from all around the other different agencies. They got somebody from the Bureau of Mines, somebody from the HEW, and so on, and many of these people didn't know any more about a gasoline station than I know about atomic energy. That is no way to run a program.

Mr. DE LORENZI. I agree, and I think particularly in the matter of gas coupon rationing they really should be moving along a lot more rapidly than they are. In fairness to them they do have some people—we have talked to some—in the Gas Coupon Office, who are thinking of revising their plan, but there does not seem to be any definite deadline for when they are going to finish the revision and publish it in the Federal Register.

Chairman HUMPHREY. We are going to press on that. Although I do hope we will not have to go into rationing, if we are compelled to do so, we ought to try to minimize its impact.

Now gasoline prices have gone up 30 percent in the past year and some places more than that; 86 cents a gallon at some place in Brooklyn, I read. I understand that was gasoline and not champagne or eau de cologne. This increase alone means an increase in the cost of living of about \$200 a year to the average family. Do you think the price will remain as at present or will it still go higher month-by-month?

Mr. DE LORENZI. I would think that it probably is near its new level at this point, Senator. Again, if the Arab embargo is lifted it may stabilize. I do think that in the world market we already can see the prices coming down a bit and I think they may come down further. I do think we have seen the peak. I certainly hope so.

Chairman HUMPHREY. I hope you are right; I really do hope you are right. The American public is very upset over what they consider to be profiteering—

Mr. DE LORENZI. That is right.

Chairman HUMPHREY [continuing]. Resulting from the shortage, and rightly so. We are not going into that with you here. That is a matter of Government policy.

On gasoline conservation, Mr. de Lorenzi, to get the facts straight, what proportion of total of auto use does the AAA estimate is for commuting?

Mr. DE LORENZI. Seventy-eight percent.

Chairman HUMPHREY. For commuting?

Mr. DE LORENZI. No; I am sorry; 78 percent is the number of people in the work force that drive to work. Approximately a little more than a third of auto use is for commuting as I recall. I may have those figures here with me. I think I do.

Chairman HUMPHREY. Well, the next question was what proportion is on-the-job driving.

Mr. DE LORENZI. Seventy-eight percent of the people that go to work go by car.

Chairman HUMPHREY. What proportion for the family purposes in ones' hometown or region and what proportion for recreation? It is important to get those figures because it has something to do with the allocation program.

To save some time here let me submit these questions to your people for the record.

Mr. DE LORENZI. All right. I can tell you this: Current estimates are that trips to and from work take about 23 billion gallons of the little more than 73 billion gallons of gasoline consumed by all automobiles in 1972.

Chairman HUMPHREY. I am going to ask the staff to submit to you this series of questions.

Mr. DE LORENZI. We will be glad to supply those figures. I don't have them here with me.

Chairman HUMPHREY. We would like to know what proportion of the total auto use is by taxis, by salesmen that must use an automobile, et cetera. There are a number of bits of information that are very important if we are going to examine the rationing system. We have got to have more information on what is going on here or we are going to get into a situation where we will be trying to unravel a mess.

Mr. DE LORENZI. Right. I agree with you. We will be glad to supply those.

Chairman HUMPHREY. I believe that is all I want to ask of you this morning, Mr. de Lorenzi. We thank you very much, you and your associates. You have been very helpful.

Mr. DE LORENZI. Yes, sir, and we will send you a copy of the latest fuel gage report.

Chairman HUMPHREY. Very good.

[The following information was subsequently supplied for the record:]

AMERICAN AUTOMOBILE ASSOCIATION,
Falls Church, Va., March 28, 1974.

Senator HUBERT H. HUMPHREY,
Chairman, Subcommittee on Consumer Economics, Joint Economic Committee,
New Senate Office Building, Washington, D.C.

DEAR SENATOR HUMPHREY: You raised two related questions when we appeared before you on March 12th and commented on the effects of the Mandatory Petroleum Allocation Program and told about AAA urging all motorists to reduce their driving by 25%.

You asked how we arrived at that percentage and whether the public is capable of attaining this goal and suggested we supply additional material for the hearing record.

We chose the 25% figure after many discussions with government and non-governmental officials knowledgeable in fuel production and consumption. This was in December of 1973, and our conclusion was that the gasoline shortfall could reach an intolerable 25 to 30 percent by Spring.

We felt then and still feel Americans are capable of reducing their fuel consumption by a quarter and that they won't have to scuttle their vacation plans to do so.

We are encouraging motoring families to sit down and work out their own plans for trimming their driving—literally to budget their driving. Attached in our booklet, "Rolling Along With the Gasoline Shortage," a guide to motoring conservation. It is being distributed to hundreds of thousands of families by AAA clubs across the country.

One of the most important yet wasteful category of family driving includes shopping, medical and school trips. Most families make several daily trips in this category when it could be just as easy to combine all of them into one trip instead of many. This could save ten miles a day more. (Please see the attached chart—FIGURE 1.)

Driving to educational, civic, and religious functions can add another ten miles or so of driving a week. Certainly, it's possible to share the ride with others for these worthwhile excursions.

Visits with friends and other local pleasure rides boost the average household car mileage by more than 30 miles per week. Surely there can be a reduction here. And if there is a licensed teenage driver in the household, there is a multiplier effect on the pleasure driving. Speaking of teenagrs, school students should leave their cars at home and use school buses, public transit, or walk to school whenever possible.

Keeping the car's engine in tune and properly inflating tires to cut "road drag" are simple but important means of cutting fuel consumption. AAA clubs, in actual tests, have found that proper tuning of the engine could result in savings as high as 25%.

There are numerous other simple, good driving techniques which also will save gas. Car pooling is another method to which we will return later.

Much rhetoric has been devoted to public transit as the easy answer to the energy crisis. All we need to do, according to this view, is pour millions of dollars into public transit, starting right now. Alas, it is not as easy as all that. Consider these three points:

1. According to the 1970 U.S. Census on Means of Transportation to Work, more workers worked at home or even walked to work than rode all forms of public transit.

2. Although almost all public transit is fully loaded or near peak capacity during regular commuter hours, the census data shows even with this load, public transit is carrying only 8.9% of all workers.

3. The census report shows that nearly 78% of all workers reach their job by private passenger car.

It does not require a trained economist to reach a major conclusion—if any significant number of these motoring workers are to be shifted to public transit, then the number of transit vehicles will have to be drastically increased.

When we start examining the facts about public transit, we find that it is not mass transit at all, as has been claimed. The 1970 census data shows

that about 4.2 million workers used buses and streetcars as their major means of transportation to work.

Let's regard the streetcars as being a minor element. Now, the American Transit Association reported that there were 49,700 transit buses in service in 1970. Dividing that into the number of bus and streetcar-using workers, we find that each transit bus serviced some 82 workers, a figure inflated by our arbitrarily including streetcar riders on the buses.

At the same time, just under 60 million others were reported as using the private passenger car as their dominant mode of travel to work. If an attempt was made to shift only half of these workers to public transit, it would indicate a requirement for an additional 360,000 transit buses.

Since delivery of new transit buses has been averaging about 2,500 units a year and since, as best as we can determine, capacity to manufacture buses has variously been estimated at 4,000 to 5,000 units per year, there is no ready solution here. Putting it another way, even if the present annual production of 2,500 buses could be doubled, it still would require more than 70 years to get 360,000 new buses in service.

For these reasons, we deplore those trial balloons which have been floated in the media to the effect that if we only allow every car owner 10 gallons of gasoline a week, he will be forced to shift to public transit. This simplistic approach is not only unrealistic and incapable of achievement but also would have traumatic economic and social consequences.

AAA believes that the work trip requirements of the private passenger car must be given a high priority in any fuel allocation program if we are to preserve our economy. So far, we have had little indication that most high ranking officials in the government even understand how transportation actually works in this country.

Indeed, some economists seem intent on keeping factories open by diverting gasoline from autos, ignoring the fact that the factories might then close because their employees would have no means of getting to work.

According to the best estimates, the to and from work trips take about 23 billion gallons of the little more than 73 billion gallons of gasoline consumed by all automobiles last year. For that reason, increased efforts should be made to encourage car pooling.

But great expectations should not exceed the reality of the situation. It is true that an estimated 40 million persons drive alone each day and the average round-trip commuting mileage on a weekly basis is 94 miles. By doubling up, this would eliminate an estimated 1 billion 880 million miles of driving. Because of the low density living and working patterns which have been selected voluntarily by our citizens over the last 30 years, we cannot expect to cut in half the number of people who drive to work alone.

However, significant gains can be achieved. That is why the AAA club in St. Paul has launched an ambitious car pooling program in cooperation with the Minnesota State Highway Department. Other AAA clubs in California, Connecticut, Pennsylvania, Colorado and Maryland have undertaken similar programs.

We believe you would agree this is not the time to return to normal driving habits. The threat of renewal of the oil boycott by the Arab nations is ever present while an increase in our domestic oil production, refining and storage capabilities will take years to achieve. The motorist is the key to solving our upcoming conservation crisis. We're hopeful that reducing fuel consumption through self-rationing by motorists will be all that is necessary to help us pull through the coming months.

Thank you for allowing us to make this more comprehensive reply.

Sincerely yours,

JOHN DE LORENZI,
*Managing Director,
 Public Policy Division.*

Enclosures.



Rolling along with the gasoline shortage

*a motorists' guide
to reducing fuel use
25 percent without
hardship—
to prevent rationing*

***if you're worried enough
about gasoline shortages
to do something about it
you don't even have to
meet the problem half way.***

25% will do.

You already hold the key to easing the energy crunch. And to keeping America rolling along during this era of gasoline availability uncertainties.

Your car key.

Simply sit down with your family, analyze your particular driving patterns and pledge right now to reduce fuel consumption. By 25%. In ways most convenient for your family.

Before government restrictions cut you back a lot more. Where it will hurt the most.

All it takes is a little care, cooperation and creativity. Because there's a lot of wasted motion in the 200-plus miles the average car owner rolls up each week.

If you think cutting back by 25% is impractical, take another look. In these pages you'll find a tankful of conservation suggestions. Although not all of them will apply to you individually, after you've read them you'll undoubtedly be able to think of more yourself.

The point is to reduce driving by 25%, while making most efficient use of the miles you do drive.

Starting right now.

We've compiled our suggestions under six categories:

- To-and-from work trips.
- Daily family business trips.
- Family education, civic and religious activities trips.
- Social and recreational activities trips.
- Keeping your car in tip-top shape.
- Good driving techniques.

The rest is up to you.

After you've sorted through the fuel conservation tips listed in this pamphlet you may find it helpful to use the "Mileage Minder" in the centerfold to help budget your driving. After logging each trip taken in your car for a week or two you'll get a quick picture of your particular driving patterns and learn where you can place the most emphasis on reducing unnecessary trips.

Become a 25 percenter yourself and tell your Congressman you're doing your part to conserve enough gasoline to prevent government controls on driving.

If all motorists will pitch in, hardships can be avoided.

Here's how:

To-and-From Work

Every day 58 million American workers use the automobile to get to and from work. Forty million of them drive alone. Those 40 million workers drive an average of 94 miles and consume 290 million gallons of gasoline each week.

Since commuting is the largest single category of automobile use, it is the obvious place for a family to start looking for ways to cut weekly driving mileage.

Two methods stand out—carpooling and increased use of public transportation, if available.

Starting a carpool is a lot easier than you think—perhaps as easy as talking to two or three of your neighbors who go to work at approximately the same time and work in the same vicinity. If you can't do that, try posting a notice on your company bulletin board asking for riders who live near you.

Your company may already have a carpooling

program—if not, ask about getting one started. If the company is too small, try to arrange to join the program of a nearby firm. Or get your company to enlist the cooperation of several others nearby in setting up a joint carpool program.

A computer isn't necessary to the success of a large carpool program, although it might help in matching riders. A large locator map—with grids or zones marked off will suffice. Index cards for potential riders and potential drivers can be filled out with all the necessary information and then matched, either individually or by company personnel.

If your company or a group of companies can't get together on their own, investigate the possibility of establishing a community-wide program. Many communities have already started this—some with the help of local AAA clubs.

In any carpool arrangement there are some basic pointers to keep in mind:

- Set a schedule of who will drive and when.
- If only one person will be driving, have the cost-sharing arrangement firmly settled before starting.
- Get your pick-up routes set well in advance, at individual homes or at a central point. Do the same for the return trip from work to home.
- Agree on how long the pool will wait for tardy passengers.
- Determine whether smoking, radio playing, or eating will be permitted in the car.
- If you'll be a driver, check with your insurance company to determine if your policy will cover any liability or if you will have to change or add insurance provisions. It's even possible that as a carpool driver you may qualify for reduced premiums.

You probably will want to try out the carpool for a week to iron out any kinks. Be prepared to make any necessary changes after this trial period.

Another alternative to driving alone to work in your car is to switch to public transportation. If a bus or rail line doesn't run near your home, consider carpooling to a point where you can board the transit service.

For communities with no available public transportation, you might consider establishing a charter bus commuting service. Several communities, particularly in the Washington, D.C., area have utilized this

approach very successfully. Your local citizens or homeowners association is a good place to get such a program going. AAA can give you details on how to proceed.

Businesses also can consider setting up buspool programs—even using small vans or other multi-passenger vehicles.

A final possibility—if you're not too far from work—is to either walk or bicycle. You'll be surprised how this might improve your health.

Family Business

Family business trips—such as shopping, taking children to school, dental and medical appointments—consume 225 million gallons of gasoline per week.

The average car-owning family makes five such trips weekly, each 11 miles long. Here is an obvious area for some painless cutbacks:

Start by combining shopping trips.

- Make careful lists before starting out and combine other errands—such as trips to the beauty parlor, cleaners, and drug store.

If possible, handle all of these errands at one shopping center to eliminate driving from one location to another. Comparison shopping can be done by phone or through newspaper ads.

- Try to arrange dental and medical appointments so more than one member of the family can go at the same time.

- Strive to schedule shopping and other family business trips during non rush-hours. This will help to reduce traffic congestion and alleviate stop-and-go driving which uses additional gasoline.

- Carpooling is an excellent idea for family business as well as for commuting. Share shopping trips with neighbors. Enlist other parents to form carpools for transporting children to and from school, extra-curricular school activities, and other group events if public transportation is not available.

- Cut down on trips to see friends in other parts of the community. Call instead, it uses less energy.

- If you're planning a night out at the theater or for dinner invite another couple, similarly inclined, to

join you. Encourage your teenagers to do more double-dating, too.

Family Education, Civic and Religious Activities

This is the category of driving which accounts for the least amount of fuel consumption and since each car-owning household takes an average of only 1.5 such trips per week, it may be the most difficult to cut back.

Still, there are ways to cut down driving even in this category.

- Again, start by carpooling to evening classes, meetings and church activities with other participants.

- Arrange to have schedules coordinated to require a minimal amount of travel on the part of participants. For example, arrange choir practice on Sunday after church services rather than on a week night.

- If you belong to committees of various groups, try to arrange your committee membership and meeting place and schedule to require the least travel for participants. Perhaps you could meet at a home or other spot within walking distance of most members.

- Re-think your organization's meeting schedule. Are frequent meetings—weekly or monthly—really necessary? Why not once a month instead of weekly? Or bi-monthly rather than monthly?

- If you're planning on taking courses of some kind, try to find those offered at a facility close to home—preferably within walking distance. Certainly you should try to arrange a carpooling program with other participants in the class.

- Suggest that your local government arrange its meeting schedule so as many government agencies as possible are meeting on the same night at the same place. That way, citizens with business before the city council and the planning commission could make only one trip to appear before both groups.

- Local government units might also consider holding more public meetings in various neighborhoods rather than at the central government location. This might help cut down on the number of miles citizens have to drive to attend these meetings.

MILEAGE—MINDER

Week one: miles beginning _____, miles ending _____, total _____

Car Use	MONDAY			TUESDAY			WEDNESDAY			THURSDAY			FRIDAY			SATURDAY			SUNDAY					
	MILES			MILES			MILES			MILES			MILES			MILES			MILES					
	1-5	6-10	11-20	1-5	6-10	11-20	1-5	6-10	11-20	1-5	6-10	11-20	1-5	6-10	11-20	1-5	6-10	11-20	1-5	6-10	11-20			
Trips to and from work (School for students)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Family business (Shopping, doctors, errands)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Educational, civic and religious functions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Social and recreational trips (Friends, movies, etc.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Vacation																								

An important first step in conserving fuel is to become aware of how you use your car and how far you drive during the week. This chart can help "profile" your driving habits.

First, record the actual mileage on your car odometer under "miles beginning."

Now you are ready to record HOW you use your car in each category of driving. After you make your first trip place an "X" in the box under the column corresponding to the day of the week you begin which best describes the type of trip and total ROUND TRIP miles traveled (1-5, 6-10, etc.). If you travel over 20 miles round trip, write this figure in the appropriate box rather than making an "X."

Continue this recording process for each round trip made in your car during the entire week. And if you take a vacation by car, be sure to record your mileage in the "Car Use Profile" box below.

At the end of the week, record the mileage on the odometer under "miles ending." Subtract the beginning mileage figure from final figure and record the total.

Now you can "profile" how you used your car. Reading

across the chart horizontally, count the number of boxes you have checked in each "Car Use" category and enter the total trips in the "Car Usage Profile." Then add and record the number of miles you drove in each category to get a graphic picture of where you are best able to focus your conservation efforts.

Car Use Profile

Category	Number of trips	Weekly mileage total
Work trips		
Family business		
Educational, etc.		
Social, etc.		
Vacation		

Social and Recreational Activities

Pleasure rides, visits to friends and relatives and other social and recreational trips—together with vacations—consume 382 million gallons of gasoline each week. The average family takes 3.5 such trips each week, with the majority being taken on weekends and holidays.

Trips of this kind are not luxuries—but they are of a nature which allows for some easy savings in fuel consumption without depriving anyone of the leisure activities so important to physical and psychological well-being. Equally important is the fact that tourism employs four million persons and it means some \$60 billion to the U.S. economy.

Start off by taking a serious look at your vacation planning. This would be a good year to vacation in an area where you won't need your car as much to get around at your destination, a large metropolitan area, for example, or a beach or mountain resort. If you will be driving to your vacation destination, look into sight-seeing services offered locally for your transportation needs while there.

This also could be your opportunity to advance in another travel direction—any direction—utilizing what AAA refers to as the radius travel concept. It means systematically investigating all the recreational possibilities within a geographical circle, the size of which is determined by the mileage you're budgeting for pleasure travel.

Your mileage budget can be adjusted upward to include longer trips if you're able to decrease use of gasoline proportionately more than 25 percent for other uses, such as commuting to work.

Qualified travel counselors can assist you in matching your personally-budgeted fuel supply with your travel interests.

Other suggestions:

- If you know some friends who are planning a motoring vacation at the same time, why not try to combine your trips? You also might consider taking a plane, train or bus to your destination and rent a car for any local driving you need to do.
- Think twice before setting out on those spur-of-the-moment local pleasure rides or visits to friends and relatives. Do they really need that kind of sur-

prise? And for those "gasless Sundays" why not try a nature walk or bike trip? Or even a bus ride downtown to the local museum or to see a local sports or artistic presentation? You'll probably find the spirit of family adventure and togetherness will more than make up for any slight inconvenience.

AAA club travel counselors offer members detailed planning advice on such things as selecting vacation destinations, travel routes and tie-in transportation arrangements, all designed with fuel savings in mind. In addition, they can plan accommodations arrangements tailored to avoiding long-distance driving on "gasless Sundays." They also can route travelers around known trouble spots and advise where localized gasoline shortages occur from time to time.

Keeping Your Car In Tip-Top Shape

Proper care and maintenance of your car can mean significant reductions in fuel consumption.

Start out by having your car's engine thoroughly tuned. AAA motor club tests show that even minor tune-ups can improve mileage by 10 percent. Other tests have shown that tune-ups can result in an immediate 9 to 15% improvement in gasoline mileage.

- Check spark plugs. Make sure yours are clean and all firing properly.
- Next check distributor points.
- Replace clogged and dirty air and oil filters.
- Check for proper functioning of the automatic choke—a sticking one will waste gas.
- Be sure the air-fuel mixture of the carburetor is precisely adjusted.
- An oil change should be part of every tune-up. Use the correct weight oil as recommended in your car-owner's manual. A heavier weight oil will force the engine to use more fuel to overcome the heavier oil's resistance, while an oil too thin may not provide enough protection to prevent engine damage.
- While you're getting your car tuned, check to see that the tires are properly balanced and wheels properly aligned. If they're not, they can create drag, forcing the engine to use more power—thus more gasoline—while shortening tire life drastically. A bent frame could have the same effect.

- Check tire pressure on your car frequently. Under-inflated tires increase rolling resistance and cut fuel economy. But don't over-inflate by more than two or three pounds. This could cause rapid wear and cut tire contact with the road, causing a safety hazard. Follow the manufacturer's recommendations.

- An often overlooked item of car care is the radiator thermostat. A defective one can increase fuel consumption by increasing engine warm-up time in cold weather. Automatic brake adjusters also should be checked for improper operation which can create brake drag and increase fuel consumption.

- Once you've had your car tuned, don't forget about it. Keeping a car operating at peak performance and at peak fuel economy requires constant care. A car needs to be tuned at least twice a year, spring and fall, or as recommended in your car-owner's manual.

- When you fill up with fuel, choose the correct octane for your particular car. Using the wrong octane might cause engine problems, spark plug fouling and reduced gasoline mileage. Avoid a higher octane fuel than required. You'll be wasting money. Ask the attendant not to fill your tank to the brim. This can cause overflow if the car is parked on an incline, and fuel expansion in hot weather can lead to overflow even when the car is parked on level ground. Make sure your gas tank cap is on tight—a loose one can allow gas to leak out.

- During this period of fuel uncertainties, many car-owners are buying lock-type gas caps. AAA advises buyers to be sure that the cap selected is designed for the specific make, model and year of the vehicle on which it is to be used. Different models of autos use various gas tank or cap venting systems. Use of an improper cap can create a vacuum as fuel is drawn from the tank by the fuel pump. This could result in the serious consequence of a collapsed gas tank. Just because a gas cap fits doesn't mean that it will function properly on your car. Buy only one designed for your car.

Keep an accurate record of the amount of gas used and the cost. Over a period of time you'll be able to check on fuel economy and perhaps discover ways to improve performance even further. A drop in gas mileage also will help you determine that it's time for another tuneup.

Good Driving Techniques

One of the major causes of poor fuel mileage for many drivers is poor driving technique and poor planning. Studies conducted by one AAA club showed gasoline efficiency could be increased by as much as 44% if driving habits were improved over a typical stop-and-go commuter route.

Good planning is the best introduction to good driving techniques:

- If you own more than one car, use the more economical one for as much of your driving as possible, particularly for commuting to and from work, or local stop-and-go driving.

- Plan your driving routes to avoid local bottlenecks such as extra-long lights and congested streets. Use less-traveled roads and free-flowing highways whenever possible, relying on traffic reports over your car radio for assistance. This will help you avoid fuel-robbing stop-and-go traffic. Avoid rush hours and other peak traffic times whenever possible.

- On long trips, start early in the morning to avoid heavy traffic and—in hot weather—minimize the need for use of your air conditioner. Time your driving to avoid rush hour traffic in urban areas, or plan your meal stops to coincide with these peak traffic periods.

- Unnecessary extra weight in your trunk will cut fuel economy. So keep baggage to a minimum when taking a trip. Packing baggage on a roof rack also creates fuel-robbing air resistance.

- Never carry spare cans of gasoline in your car trunk—that's extra weight you can definitely do without. This practice can be extremely hazardous since a spark or a lighted cigarette meeting an accumulation of vapors, or a collision, could set off an explosion. *One gallon of gasoline has the heat energy force (BTU's) of 50 pounds of dynamite.* Instead, buy an inexpensive hand-operated pump for possible siphoning requirements. Do not attempt to use a siphon hose by mouth. Inhaled fumes or possible fuel ingestion can be dangerous.

After good driving planning comes good driving execution:

- Begin the minute you fasten your safety belts and turn on your engine.

- Avoid extended warm-ups when starting a cold engine. It may be necessary, on cold mornings, to depress the accelerator once to set the automatic choke—any added pumping of the accelerator will only waste gas. Check the owner's manual for proper procedure.

- As soon as your car is drivable, accelerate gently and drive slowly for a mile or so—your engine will warm up faster and you'll save fuel. If your car is equipped with a manual choke, push it part way in as soon as the engine is running, then push it all the way in as soon as the car is safely drivable.

- Avoid unnecessary idling—which can consume gas at the rate of a half gallon per hour. Idling more than one minute will waste more gas than it takes to re-start the engine.

- Don't rev up the engine and then quickly shut it off, thinking you've primed it to re-start. Actually, you've dumped raw gasoline into the cylinder walls where it may wash away the protective oil film and increase engine wear when you re-start. It's also a waste of fuel.

- Even while you're driving you should still be planning. Look well ahead to spot slowdowns and red lights. Pace yourself to reach them when they turn green. A car uses much fuel when accelerating quickly from a complete stop. Keep a good space in front of you so you can adjust your speed gradually without closing the gap on the car ahead. If stops are necessary, release the accelerator early and brake gradually.

- Smooth "footwork" is crucial to good gasoline mileage. You'll get the best fuel economy by smooth, steady accelerator pressure for cruising conditions. Gradual acceleration and braking are also helpful. Hard acceleration pours more fuel into the engine for more power, but the fuel is incompletely burned and mileage suffers.

- You'll get the best fuel economy by traveling at moderate speeds. High speeds require more gasoline to overcome greater air resistance. Each car's engine has a speed at which it operates most efficiently, depending on axle ratios, tire diameter, vehicle size and weight and other factors. Generally, this ideal speed is under 55 miles per hour and cor-

responds with the speed in top gear at which the engine produces peak torque.

- When approaching a hill, build up speed early to avoid fuel-robbing hard acceleration on the upgrade. When accelerating with a manual transmission, shift up as soon as possible without causing the engine to "lug" or stumble. If the engine does "lug," the low carburetor vacuum condition that results will cause increased fuel consumption.

- You might want to consider installing a dash-mounted vacuum gauge calibrated in fuel economy ranges. Such gauges allow the driver to monitor fuel use and engine condition while driving. Cost is generally between \$5 and \$12 at most auto parts stores.

A great deal of fuel economy of your particular car will depend on the optional equipment on the car itself:

- Such options as air conditioning and—to a lesser extent—even electrical accessories such as heaters, defrosters and radios use more gasoline. AAA tests have shown that when air conditioning is not in use fuel economy improves by 5 to 14% or more. Air conditioning also adds weight—about 100 pounds—to a car, increasing fuel consumption even more merely because of the extra weight. If you have it, use it sparingly.

- An automatic transmission can be a gas-using option. Manual transmissions generally use less gas, particularly in small cars, although this may not hold true in situations where frequent shifting is required.

- Power steering also uses a bit more fuel.

Some options can help conserve gasoline:

- If you want air conditioning, for example, a light exterior car color combined with light interior upholstery will reduce heat build-up and keep your air conditioner from having to work so hard. Tinted glass also helps.

- Fuel injection usually saves gasoline by more uniformly and efficiently distributing the fuel than do carburetors. An electronic spark ignition system also is a gas saver since its improved spark means better combustion and less chance for fuel-robbing spark plug fouling.

- Top-quality radial tires usually will result in a 5 to 10% fuel saving because rolling resistance is reduced.

Steel-belted radials generally are even better than fabric-belted radials in this respect.

- If you'll be doing a lot of open-road driving, a cruise control option may be worthwhile since such an accessory can maintain a steady speed, rarely using the carburetor's accelerator pump.

Summary

While some of the gasoline conservation tips we've described will effect only nominal savings individually, their collective impact can be great. Great enough to prevent strict controls on mobility.

They require serious attention from motorists, because the energy crisis is a very real problem involving all forms of energy but most basically petroleum. It is a problem that will not be resolved even with improvements in foreign relations with Mideast countries upon whom the United States relies for much of its imported crude oil needs.

Energy problems will continue to face the U.S. for at least several years until the nation gains greater total energy self-sufficiency in a variety of ways—developing new sources and increasing productivity of existing sources.

The situation will get worse before it gets better. And each American motorist needs to do whatever is possible to cut back gasoline consumption by at least 25 percent to avoid tough Federally-directed constraints on travel by car.

Become a 25 percenter yourself. Tell your Congressman you're cutting back a quarter on your fuel use and ask him to hold off on controls until you've had time to prove yourself. This guide points the way and the key to making it happen is in your hands.

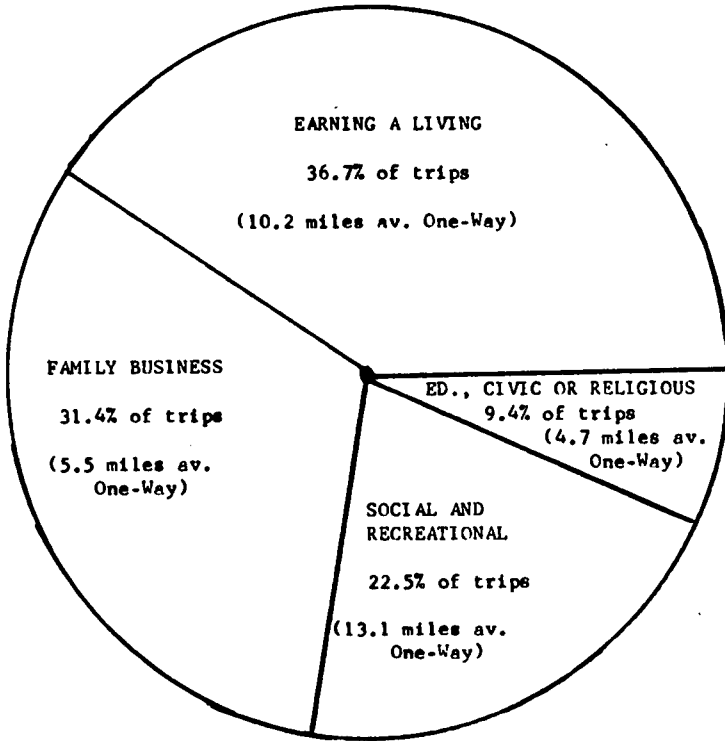
Your car key. Use it wisely.



American Automobile Association

8111 Gatehouse Road, Falls Church, Va. 22042

FIGURE 1

PASSENGER CAR USE

-- SOURCE: Preliminary results from the Nationwide Personal Transportation Survey, 1969-1970, U.S. Department of Transportation, Federal Highway Administration.

Chairman HUMPHREY. Mr. Binsted and Mr. Brooks, would you both come forward together, please.

Mr. Binsted, you represent the National Congress of Petroleum Retailers, I believe?

Mr. BINSTED. That is correct, Mr. Chairman.

Chairman HUMPHREY. And, Mr. Brooks, you represent the Greater Washington-Maryland Service Stations Association?

Mr. BROOKS. Yes, Senator.

Chairman HUMPHREY. Fine. We thought it would be well to have you both testify. So why don't you go ahead Mr. Binsted, with what you have to say?

Mr. BINSTED. I do have a very short prepared statement, Mr. Chairman, that I would like to read into the record if I might.

Chairman HUMPHREY. Thank you.

**STATEMENT OF CHARLES BINSTED, EXECUTIVE DIRECTOR,
NATIONAL CONGRESS OF PETROLEUM RETAILERS**

Mr. BINSTED. The National Congress of Petroleum Retailers is composed of affiliated groups throughout the country and represents approximately 70,000 independent branded dealers.

Our association supported mandatory allocation rules and went on record with that support as long ago as June 1973 when we testified before the Oil Policy Committee.

It was evident to us at that time that a voluntary allocation program would not work. Companies were already favoring their own locations or over-supplying favored dealers. They had cut off independents and had started a massive withdrawal from markets which left their branded dealers without locations.

It was obvious to us that the power to allocate is the power to control and we believed that if allocation rules were necessary they should be promulgated and carried out by the Federal Government.

This, of course, was done on January 15 of this year. However, as is the case with any attempt to regulate, there are always inequities and obstruction. The mandatory allocation rules are no exception.

A major problem from the point of view of dealers and inconvenience to the public has been the failure of the FEO Form 17 system to provide additional gasoline to individual service stations based on unusual growth. To date there has been no improvement in this system.

The FEO 17 is a form which must be completed by the service station dealer and filed with his supplier and the FEO in order to obtain additional product based on growth since 1972. The supplying company is permitted to approve increased allocations for growth between 10 and 20 percent without FEO approval. However, everyone loses the first 10 percent which means, for example, that a dealer with an 18 percent growth factor can be increased only 8 percent. Some companies have automatically built into their base allocations the allowable increase. Now, I might say at this point, that would help the case of Gaithersburg if in fact the FEO 17 formula had worked, because in addition to allowing gasoline

for unusual station growth, it also recognized usual growth in an area, either population growth or factory growth, and this can be stipulated in the form and FEO has discretionary authority to provide additional gasoline to that area.

Under the regulations any increase in excess of 20 percent must be approved by FEO. This has been a slow process and we are aware of only a very few instances where the FEO approval has finally been granted. We understand that a change is being considered by FEO which will require the supplying companies to immediately grant all increases based on growth and certify this to FEO. We strongly recommend and support such an action which will bring additional supplies to growth areas where it is needed most.

We have reports from some of our affiliates indicating what may be abuses of the rules as they apply to "end users." Various types of companies are installing their own bulk tanks and pumps and are applying for "end user" allocations. Complaints from North Carolina, for instance, charge several companies with using the gasoline not only for legitimate commercial vehicles but also for sales to company employees. One report concerns a bank which is installing bulk facilities to supply its employees. This is clearly not permitted under the rules.

Reports from Georgia complain that bulk users are reserving their gasoline as long as they can obtain supply from local service stations. They use their own gasoline only when the supply is tight. Still other reports complain of companies leasing closed service stations and using the allocation for themselves and their employees.

These actions concern us for two reasons. First, the general public is being deprived of gasoline if the bulk "end user" is using the gasoline for other than legitimate commercial use. Second, the proliferation of bulk facilities in commercial accounts will deny that business to the service stations when the supply situation eases. We believe that a system of supplying commercial accounts should be set up through the service stations and the stations should be supplied on a basis that would allow them to meet the legitimate demands of commercial accounts as defined by the regulations.

Service station dealers in cooperation with their States have implemented programs which attempt to ease the burden on the motorist.

Semirationing programs such as the one first used in Oregon have had some success in accomplishing this goal. The National Congress of Petroleum Retailers has endorsed these plans, both voluntary and mandatory.

Dealers also have cooperated through decisions to stagger hours of operation and self-imposed daily sales limits which attempt to make gasoline available on an everyday basis—generally with the exception of Sundays—between scheduled deliveries by their wholesalers. I might add at this time that we believe that the process used by some companies of scheduling deliveries throughout the month, rather than selling all of the gasoline to their dealer at the beginning or the first 2 or 3 weeks in the month, if this is desired by the dealer, is a better plan. That means that if you have an allocation

of, let's say, 48,000 gallons the transports are 8,000 gallon loads—you would get six of them staggered throughout the month to insure that the dealer would only have to concern himself with seeing that the gasoline reached from one delivery to the next rather than trying to stretch his whole allocation throughout the month.

Chairman HUMPHREY. Yes.

Mr. BINSTED. Many stations have split their hours of operation, selling gasoline for 2 or 3 hours in the early morning and 2 or 3 hours in the late afternoon. Others sell only in the morning, while still others sell only in the afternoon. In addition to staggered hours of operation, we have urged dealers to post signs stating the hours they will be open for gasoline.

In addition, dealers responded to Mr. Simon's request to limit sales to 10 gallons per customer. This helped temporarily, before the lines got so long, but we believe that it eventually had a negative effect by increasing lines; therefore, we now recommend a fill-up instead of a limit. We do endorse the requirement for a minimum sale to prevent top-offs of gas tanks, however.

We believe that no attempt should be made to require by law specific hours of operation for stations, since these hours must of necessity vary with available supply and delivery schedules. Any attempt at mandatory hours of operation I believe would be totally unworkable.

Further, we are opposed to any programs that will cast the dealer in the role of policeman without credentials. Reports of altercations and violence in service stations have not been exaggerated. Worn nerves and frayed tempers are responsible, and nothing should be done which would increase this tension. The motorist should be required to adhere to State and Federal regulations rather than making the dealer the enforcer.

The NCPD has passed a resolution in opposition to coupon rationing. We simply believe it is the wrong approach, at least the proposed regulations as now drawn. Under coupon rationing it would be absolutely necessary to match the distribution of the product throughout the country with the distribution of ration coupons. It is perfectly obvious that if the bulk of the coupons are in one place and the product in another, the system will not work, and such accurate distribution has not been accomplished to date, I do not believe.

It is also obvious that we have not as yet achieved a proper distribution of product throughout the country. If this is achieved and the supply situation does not worsen, we believe that this in itself may make coupon rationing unnecessary.

We also believe that under coupon rationing the amount of product rationed to individuals would have to be less than what is now generally available in order to attempt to insure that the holder of the coupon could in fact get gasoline. I think if we consider the problem that we have now with the motorist who comes into a service station and waits in line only to be told there is no gasoline—if he also had a coupon in his hand he would be doubly irritated; and this may be the case. My information is that in World War II we didn't have really the shortfall of gasoline supplies for the average motorist that we have today.

Now, somehow under this program we would have to make gasoline available; at least we would have to get enough gasoline to get tanks up to a level at which we could assure that coupon holders can get gas. For the most part we are now operating off the bottom of our tanks.

I did want to say that I own a service station and have been in the business for 27 years. In recent weeks I have spent many of the early morning hours talking to customers in my station. That was an early as 5 a.m., too, on a few occasions here recently. And I can tell you that, even when the lines were the longest, the great majority of people did not favor coupon rationing from my conversations with them.

While there are many inequities in the proposed coupon rationing plan, let me point out just one.

I believe it is totally unfair for a man and his wife who own only one car and have only one driver's license to be rationed on the basis of 8 gallons per week, while his neighbor, his neighbor's wife and his two teenage sons, if all are registered drivers, would be rationed at 32 gallons per week.

Further, the problem of handling the coupons will be a massive one for the dealer. Bookkeeping and coupon control will place an additional burden on him requiring control which is difficult at best.

We as dealers have another problem: Dealer lease termination by the major oil companies and their withdrawal from some markets. Some companies are determined to continue their policy of lease termination and nonrenewal. B.P. in the East is attempting to disenfranchise many of its dealers who operate high-volume stations so that the company can operate the stations themselves.

Chairman HUMPHREY. I was going to ask you a question about that. I am very interested. You have seen that pattern?

Mr. BINSTED. Yes, sir; it is becoming more of a pattern. Mobil has announced that in Connecticut, for example, it intends to take back all of its independent branded stations and run them as company operations. Total, a company that moved into the Detroit area no long ago, a couple of years ago, is embarking on the same practice, and when they do this, they are going to discontinue providing some of the services to the motoring public that we have become used to. They say it is too expensive for them to operate in that manner, so they will be discontinuing services, such as lubrication, oil change, and mechanical services and just be on a gasoline-only basis. In addition to that, the majors are moving into direct competition with private brand dealers by the use of their secondary brands to move into that market so—

Chairman HUMPHREY. But again, company-owned, company-operated, secondary brands?

Mr. BINSTED. Company-owned, company-operated brands and secondary. It is a strange movement by the major oil companies because, as one of the oil company executives pointed out to me, they look forward to a stable market and at that time they will no longer need the dealer.

I might add that while not all of the companies have embarked on such a program at this time, if many of them do continue what

that program and are allowed by either the Congress or FEO to continue this total vertical integration, then others probably will be forced to follow that pattern to the great disadvantage of the many small businessmen that have been in this industry for many years.

Chairman HUMPHREY. Do you think there is anything that the FEO can do about that?

Mr. BINSTED. The FEO does have some regulation that touches on it, and their rule—Interpretation No. 1974-3—does deal specifically with it but still skirts the problem to some degree. But we are getting information back from the regional offices that they are saying they will not involve themselves in contracts between companies and dealers. However, companies should not be allowed to terminate supply contracts, and supply contracts are in almost every instance an integral part of the lease.

Chairman HUMPHREY. I think the oil industry should know that if it continues that practice, which it apparently is engaging in, that it is going to have a first-class knock-down, drag-out fight with Congress and certainly with certain Members of Congress because this is a highly monopolistic practice. It is anticompetitive. It violates every tenet of the competitive system. And I just want to say as one Senator that, if that kind of operation continues, I am going to make it my business to go after them with everything I have, because I think that such actions are destructive of the competitive system in this country and the independent service station has been the really competitive element in that industry. And when you talk about a service station, it isn't just pumping gasoline.

Mr. BINSTED. That is right.

Chairman HUMPHREY. We built our society, rightly or wrongly, around the automobile to a large extent; the automobile is a vital part of the American family. Now, that automobile and that family need something more than gasoline. They need a place to go to take their car for a tuneup, for changing the oil, for lubrication, for all the little things that happen all the time; for the change of a tire, battery, all the many things that happen; and if the large oil companies think they are going to get by with forcing out the independent franchised dealers and going to the company-owned station and with no service because service is too costly, I think we ought to serve notice on them here and now that they are in for antitrust action. It's a violation of the Clayton Act and the Sherman Act. They are going to be having troubles with investigating committees in the Congress. We will investigate the living—out of them until we really find out what is going on around here. This industry can't get by with it.

Mr. BINSTED. I must say, Senator, that I am very happy to see that you understand the problem so well. We are in fact proposing some legislation which would be a moratorium on the further forward integration of the major oil companies until divertiture at the retail level can be studied.

Chairman HUMPHREY. You show that legislation to me at the right time and we will get some action around here. We won't let that happen. We let the railroads get rid of all their trackage be-

cause they said it is too expensive, so now we can't move our crops. We are going to have a system in which either you have to live on an interstate highway or be rich if you want to get anyplace.

Mr. BINSTED. In Maryland such legislation has already passed the senate and the economic matters committee of the house of delegates and the Governor has agreed that he will sign it. I hope that maybe Maryland will be one of the first States to have such legislation to prevent this downstream vertical integration.

Chairman HUMPHREY. I have a son in the State senate in Minnesota. Why don't you send him a copy of the bill? He has more zip and go and is brighter than his father because it comes from his mother's side of the family.

Mr. BINSTED. I certainly will. We have an affiliate in your State and I think we already have or will send this type of legislation to them.

Chairman HUMPHREY. Thank you. I want to urge you to keep on it. You have friends up here on Capitol Hill and we are not about to permit hundreds and thousands of entrepreneurs that have served their communities to be eliminated. In some areas, the gas station is the only business in the neighborhood, you know, the only place you have to go to get a bottle of pop or glass of water or to use the lady's room or men's room. About the only place you have to go. If these major oil companies are going to move in with vertical integration and cut out the independent dealer, then we have got to serve notice on the oil companies that they will have a first-class war with public officials. Some will be with them, some will be against them. I am going to be against them.

Mr. BINSTED. We certainly appreciate that.

Chairman HUMPHREY. And I am a good infighter and durable.

Mr. BINSTED. I think there is one warning that you mentioned and that is the fact that, if we find all of these stations going to gasoline-only operations, you will find what already is happening on a smaller scale right now. Because of the supply shortage and because of lines, we have been kind of lax with sales of products other than gasoline because either the public didn't have the time, did not want to take the time, or we couldn't do what we feel we should be doing to give the service to the customer. As a result, some automobiles have been neglected as of this moment.

Chairman HUMPHREY. Right. And they represent a big investment for many of our people.

Mr. BINSTED. This is right.

Chairman HUMPHREY. That had to happen. In order just to pump the gasoline, many times the service station operator has had to forego the other things he would have done ordinarily. Sometimes, you know, I go to a little station out in my hometown and I hear something in the car that isn't right and I talk to him, and he gets his mechanic out there and we fuss around and he tells me what is wrong. We get it fixed. Well, this is a part of the pattern of life in this country, and once we get these big outfits controlling us they will give a minimum amount of service and a maximum amount of price.

I tell you, I run a family drugstore. I know what goes on. I am

not about to let the big shots take over entirely. They have got most of it already.

Mr. BINSTED. We are building—as a matter of fact, we have built quite a record on what is happening. As a matter of fact, I do have a letter here from Smith and Persian—Gary Persian is the attorney for the Minnesota Association of Petroleum Retailers—outlining some cases.

Chairman HUMPHREY. We work with them, and any information you have for the record on this issue will be very much appreciated because we are going to try to be an ally here in the Congress to protect competitive systems that we have and the dealer-owned stations.

Mr. BINSTED. I think really that discussion pretty well covers what the rest of my testimony was about. We are saying that legislation should include a moratorium against further operation of retail outlets by petroleum companies; and a dealer's day in court provision similiar to the one killed by President's Nixon's veto of the Emergency Energy Act is a necessity too, because this type of legislation prevents the companies from arbitrarily terminating the very short-term leases; under that type of legislation they would have to have at least a reasonable cause for terminating those leases.

Chairman HUMPHREY. Right.

Mr. BINSTED. We think that is the kind of companion legislation we need along with the moratorium legislation.

Finally, just a note. I have heard much about the rumored departure of Mr. Simon, and we are concerned throughout the industry that a complete change in the top management of FEO may not be in the best interest of anyone at this time, whether or not we agree with what Mr. Simon and Mr. Sawhill have done up to this point. But I think a reeducation process for new leadership in there is a luxury we just can't afford at this time, and I certainly hope, if such a recommendation comes before this Congress, that we would get somebody to follow Mr. Simon such as Mr. John Sawhill or somebody like that, so we won't have to go through a reeducation process. I have seen this happen before in working with agencies, and it does disturb us to some degree.

Chairman HUMPHREY. Good.

On the matter of vertical integration. Have you seen a pattern where the big companies, big oil companies, watch to see which of the retail outlets are the juicy ones—you know, the ones that have the most business, I mean the most customers and sales—and then noticed that those are the ones that are taken over by the company when the lease runs out?

Mr. BINSTED. Exactly so. B.P. in this area—

Chairman HUMPHREY. That is British Petroleum?

Mr. BINSTED. British Petroleum. However, they always hasten to add that they are a domestic company and a part of Standard of Ohio and are not to be confused with B.P. I have referred to them in testimony before, and they have always corrected that, so I will correct it at the outset. However, in this area in particular, right around the metropolitan area of Washington, we have a class action now involving 10 B.P. dealers. What happened is that

they took the choice locations and told these dealers their leases would not be renewed. They were going to take them over for "gas and go." They were going to continue to fly the B.P. logo. The dealer would be transferred to some other location, a much less attractive location in all instances, and he would be denied the B.P. logo and all of the associated advertising; they would allow him to fly their William Penn brand name.

Chairman HUMPHREY. Oh, jolly.

Mr. BINSTED. Sir?

Chairman HUMPHREY. I say jolly.

Mr. BINSTED. Yes. And so at least 10 of the dealers in this area said, "Well, they at least wanted to fight it in court." So this is occurring now and we are bringing it to the attention of the Federal Energy Office. We know that in some instances that is what they look at. Gulf has done it. In some areas they have withdrawn from markets, say, and in some they have kept some of their choicest locations for carwash type or self-service type operations that will be company operated, and this is so with many of the other major oil companies. That is the way Total is going to operate in Michigan. And Mobil, just in reaction to some of the legislation that has been passed or that they anticipate may be passed, has determined they are going to take over their operations in Connecticut so that they will not have to face this legislation.

I think it is interesting also to note that Exxon has written into its lease what I believe to be a deliberate circumvention of the proposed dealer's day in court type of legislation which was a part of the emergency energy bill. That legislation, as you probably know, says that the company will not terminate, cancel or fail to renew a dealer as long as he substantially complies with essential and reasonable requirements of the contract. Exxon's new lease says that the dealer agrees that all portions of the contract are fair, essential, and reasonable and any violation of any provision will be deemed substantial.

Chairman HUMPHREY. And therefore the loophole under the law?

Mr. BINSTED. Yes.

Chairman HUMPHREY. Rather than to continue questioning with you, Mr. Binsted, I am going to ask Mr. Brooks if he wants to make his statement now, and then we can come back to question both of you.

Mr. BROOKS. Senator, not to change the subject but I am one of those dealers that received notice as of June 30. Either buy the place or get out of business.

Chairman HUMPHREY. Buy the place or get out of business?

Mr. BROOKS. Yes. In the metropolitan area the company is not renewing leases, and then it lets the station stay idle maybe a year or two and then comes up with a self-service operation with a wash rack. They have several stations now boarded up. I received my letter 2 weeks ago. As of June 30 terminate the service or buy the location.

Chairman HUMPHREY. What company?

Mr. BROOKS. This is Gulf. Gulf Oil.

Chairman HUMPHREY. Where is your station located?

Mr. BROOKS. 5120 Georgia Avenue.

Chairman HUMPHREY. Mr. Brooks, we welcome any commentary you have this morning. Do you have a prepared statement?

Mr. BROOKS. I have a prepared statement. I was instructed to keep my comments more or less to the Washington program. We feel as though we have shortened the lines and in fact, as of yesterday, we didn't have any lines at any gas stations.

Chairman HUMPHREY. Very good.

STATEMENT OF WILLIAM J. BROOKS, PRESIDENT, GREATER WASHINGTON-MARYLAND SERVICE STATION ASSOCIATION

Mr. BROOKS. Mr. Chairman, members of the committee, my name is William J. Brooks and I am the president of the Greater Washington-Maryland Service Station Association, an organization of more than 750 members.

The purpose of my appearing before you this morning is to examine the performance of the present gasoline allocation system. How well it is working, and what changes if any governing the present gasoline distribution should be made?

I am pleased to announce today that the long lines of motorists found waiting in stations to purchase gasoline have been greatly shortened and in some cases eliminated.

We feel that this was due in the District of Columbia to the arrangement between the Mayor's Office, the city office of petroleum allocation and the Greater Washington-Maryland Service Station Association. Special arrangements involved 117 of the city's 283 service stations to date.

At first we arranged for 17 service stations scattered throughout the city to observe early morning opening hours—5 a.m., to 7 a.m. Next came 40 stations scattered throughout the city with evening hours from 7 p.m. to 10 p.m. After the third day of operation there was a considerable shortening of lines and cars were not needing as much gas to fill up as before.

We later found it was better to close by 9 p.m. since demand slackened off after that time and the last hour was unnecessary.

The first week of March we had 20 stations open from 7 p.m. to 9 p.m. These were distributed throughout the city. With the extra hours in the evening other stations found it easier to operate during their regular hours and to give normal service to motorists. At this point March allocations had begun to flow to all stations in the city. This was also a shot in the arm to keep the lines down. The 117 dealers used so far in the program received from 7,800 extra gallons of gas to 15,600 for early morning stations. This extra gas came from the city's set-aside program. We hope eventually to use all of the city's 283 stations in the program so that all stations and motorists will receive equitable portions of the gasoline from the set-aside.

We would recommend that the committee examine the northeastern section of the country from Virginia to Massachusetts and also southwestern California, including Los Angeles, where long lines are prevalent.

The scale should be balanced so that, where the number of vehicles obviously has increased since 1972, a larger allocation of gasoline should be provided for these areas.

We feel that the odd and even day purchase plan combined with the \$3 minimum purchase plan which our association originated has been very successful in eliminating tank-topping. Our plan of having motorists not request gasoline until their tanks are below half full has also helped a great deal, and this also has been adopted universally across the country.

We feel that we may have to put early-morning openings into effect in the last week of this month if the lines show signs of increasing. I would like to say here that this morning in the Washington Post there is an article concerning the cab situation in the District of Columbia in which they are reported to have used their March allocation and now for the rest of the month will have to draw from the set-aside. I think this is going to put a burden on the District under which we might go back to seeing a few lines. If that is the case, then we have to go back and reestablish the program we had in the last 4 days of February.

Chairman HUMPHREY. Mr. Brooks, you have been an innovator and done a good deal here in the District of Columbia to alleviate what was a very serious situation and I want to commend you and your association.

Mr. BROOKS. Thank you.

Chairman HUMPHREY. You have done some very good work and I hope that other communities will watch to see what you have done. The mayor has been very cooperative in this matter and we are indebted to you for it.

How did you decide how to distribute the special allotments in the District of Columbia in February?

Mr. BROOKS. Well, in February, Senator, we actually went down to the Mayor's Office on the matter Mr. De Lorenzi was speaking about this morning, and the mayor's aide said, "We have got this gasoline to get rid of. What is your suggestion?" I said the best way to do it is pump it through the pumps. We looked at the areas on the map and took stations off the beaten path—more or less in the communities and not on the main arteries. We felt that if we opened early in the morning the citizens who went to work early and didn't get back until late in the afternoon would be served. In my particular station, the first day I opened I had 125 cars in line, but as of 11 o'clock in the morning we were completely out of cars, no cars in line. So it really helped.

In the evening hours, we also service the people who were at work and couldn't get in line of the morning.

Chairman HUMPHREY. Mr. Binsted, if I may move to you for a minute, there seem to be disparities among the supplies by the oil companies to individual stations. Each company has a certain percentage of its 1972 supply but its dealers often report different quotas. Do you observe any systematic discrimination against dealers in remote areas, or between dealers with small stations and those in highly competitive locations, or against franchised stations and in favor of the companies' own stations?

Mr. BINSTED. We have observed that. It was pretty prevalent during the voluntary allocation program, and that is the reason we supported the mandatory allocation system.

I was looking here for something I had, I don't see it at the moment. However it dealt with a dealer-operated Gulf service station that was doing an average of around 40,000 gallons in 1972. He was in there for a while in 1973 and then he was forced out of the business, I think it was in January of this year, and Gulf took it over. This happened to be in Louisiana. They started allocating to themselves and pumping between 4,000 and 6,000 gallons a day through what previously had been a 40,000 gallon operation.

The rules on new customers are not clear unfortunately. If a dealer moves out and the station is closed a day or two, some of the companies feel they can reallocate to themselves as a new customer. The only thing the rule says about a new customer is that if the supplier and the customer cannot agree on a base-period volume, the new customer may apply to be assigned a base-period volume by the FEO. Of course, if the customer is a major company supplying itself what it considers it is going to sell, and it certainly is not going to complain to the FEO that it is not supplying itself enough.

I think the only recourse we have now that I can determine is probably filing the so-called FEO 1, which is a complaint form, and hoping some day that thing will grind its way through the process and get back and correct that situation. Very frankly, I think the rule should be corrected to disallow the companies from making such a change in an allocation to a historical site. At least they ought to be required to look at others in the area as they do when establishing prices and not to be allowed to allocate to themselves arbitrarily at a level that is four or five times greater than they were allocating to the dealer which they squeezed out.

Chairman HUMPHREY. Yes. Actually the present system is sort of an incentive to the big companies to take over certain stations so as to be able to up the allocation.

Mr. BINSTED. I am afraid so, yes. I am afraid so unless these rules are a little bit more tightly drawn in that respect or unless we get out of the general counsel's office of FEO an interpretation of this rule which will provide some guidelines as to how they must operate allocations.

Chairman HUMPHREY. Mr. Binsted, in the past 18 months, 1,200 Minnesota service stations have closed. Another 10 percent it is estimated, will fold in 1974, dropping total stations to about 4,000 by the year's end. Is this normal around the country or are we a little extraordinary in this respect?

Mr. BINSTED. Well, service stations turnovers historically have been high. Now, what we have been trying to determine is which ones are closings and which are turnovers, because they do not all fall into the same category. We were trying to get some figures from Maryland. We had in the last quarter of 1973 I think 281.

Chairman HUMPHREY. These are closings, these are not turnovers.

Mr. BINSTED. These are closings. Yes, in Virginia I think the reported figure was about—I have forgotten whether it was 400 or 600. I don't have those figures with me. But the turnover figures

also have gone up. There is a lag in the reporting of those figures by API and others from whom we get the information. You can get last quarter 1973 figures, but it is difficult to get real current figures since we have gotten into the crunch. But historically we have turnover figures of anywhere from 25 to 35 percent.

Chairman HUMPHREY. But you had new dealers taking over.

Mr. BINSTED. That is right, because the operations were economically unsound, or for one reason or another the operators turned the service stations over. Some of those did close, however. There seems not to have been too much growth in the past 5 years based on the census figures that I have seen and the estimated census figures to date on service stations. I believe that the industry has been overbuilt and that some natural attrition is probably all right, but I don't want to see either Government or company euthanasia hasten this sort of thing.

Chairman HUMPHREY. Mr. Binsted, this two-tiered system of pricing for crude oil has resulted in a multitiered stratification for products, including gasoline. So long as gasoline is short, even high-price stations can sell out their gas. If and when supplies become a little easier in some regions, won't the integrated companies with domestic crude supplies be able to drive the nonintegrated distributors completely out of business?

Mr. BINSTED. The dealers will not be able to stand the wide variances in prices that they have right now when supply meets demand. We have variations of 10 or 12 cents per gallon, and the public is not going to permit that if and when supply becomes plentiful.

Chairman HUMPHREY. What do you think we should be doing about it?

Mr. BINSTED. Well, I think we have got certainly to do something about changing the program. First of all, I don't believe that we can possibly predicate future refinery expansion or additional production on \$10 oil simply because foreign oil happens to be \$10 oil. Now, I haven't gotten into the crude picture to any great degree. The FEO and their regulations have kept me too busy working with the immediate dealer problems. But to be honest with you, I don't believe that the two-tier structure is going to be totally workable, because if you have somebody that is drawing only on foreign oil, or only on new crude or released crude, he is going to have very high cost of production and the people that control the domestic crude, which is controlled, will probably have an advantage.

There have been some recommendations that perhaps the so-called old crude be allowed to increase to some degree and that the price of new crude and released oil be forced down. I know the problems you have with the people with stripper wells who say that their production is expensive, and I know the problems about offshore drilling being more expensive, and you might be discouraging that. Actually this is a problem that I don't feel competent in trying to solve. I know this will be a problem that you people are going to be faced with.

Chairman HUMPHREY. Mr. Cox was just talking with me, a staff member here. Do you want to put a question? Since no other sub-

committee members are here, I am going to ask Mr. Cox of our staff to interrogate for a moment here. Do you want to follow up on that?

Mr. Cox. Well, if we adjust the prices of crude oil in order to bring the prices of all gasoline into uniformity, given that about 70 percent of domestic crude production is now under the lower price limit, that will just increase the bonanza to the majors and increase the prices to the consumers all around, won't it? And pass-throughs of higher crude prices won't do much for the gas dealer. Isn't that true?

Mr. BINSTED. I agree with this and I have been in some discussions about this thing. As I say, I think it is a little bit outside of my competence. However, I know that is one of the reasons for discussing the windfall profit tax or the requirement that certain moneys would be reinvested in production and expanded refinery capacity and that sort of thing. But, yes, you are right. I would necessarily mean, I believe, that we would see an increase in the profits to these people. Yet I don't see how the two- or three-tier system that we really have can continue if in fact we get additional product in the market.

Mr. Cox. Well, I don't either, but it would seem to me that this would mean escalating all prices to the gasoline buyer, perhaps not to the highest level prevailing today, but to a level considerably higher than the average prevailing today.

Mr. BINSTED. Well, I think probably prices have been historically too low so far as gasoline is concerned, but there are a couple of reasons for that, I guess. For instance, we have had some artificial systems at work, such as the tax advantages and various other things that have tended to keep the price of the product down and did not make for the kind of free market that would have let gasoline prices rise to what may have been a more proper level than they were some time ago. I don't think you are going to go back and see prices that we saw just a few years ago.

Chairman HUMPHREY. Mr. Brooks, let me ask you, on these innovations that you have made in the District of Columbia, have you had cooperation from the FEO on this?

Mr. BROOKS. No. We didn't have any—this was a set-aside from the District and we didn't have to go to the FEO for any large amount. But I would say that, after meeting in the State of Maryland with Governor Mandel on Wednesday, and after Mr. Simon reviewed the figures that he put out in the latter part of February, he did give us an increase which enabled us to supply the 40 stations and the 20 stations that we are going with now.

Chairman HUMPHREY. I know that most of the information about the operations—the changes in schedules, the hours of the stations, the extra stations that are open—that has been highly publicized by the radio and television.

Mr. BROOKS. Yes.

Chairman HUMPHREY. By the way, radio and TV have done a very commendable job, here in the District, I must say, in keeping people informed. Did the FEO make any effort to transfer the experience in this area to other localities?

Mr. BROOKS. Not that I know of. I haven't been contacted. I don't think the City Office of Petroleum Allocation has been contacted yet.

Chairman HUMPHREY. What do you anticipate the effects of the lack of routine servicing will be on your customers' future repair bills, and also might I say on the income of your stations?

Mr. BROOKS. Well, at my particular operation, I open in the morning at 7:30 and my pumps are open for commercial business from 8 until 12 and 3 until 6 or until the line ceases, which is about 6:15. I am open for services from 7:30 in the morning until 3, but after I start pumping gas I can't do anything except pump gas.

Chairman HUMPHREY. I know. That is all you can do during that time. What I am getting at is that, from my experience of knowing people in this business, I know that a lot of their income comes from batteries, from tires and repairs. As a matter of fact, you make more money off repairs and service than you do selling gas.

Mr. BROOKS. That is correct. We try to keep the stations open and try to get the dealers to post their hours for services. All day Saturday I am open strictly for services because I can't sell gas but 5 days a week. On Saturday I am open from 8 to 4 for services. This is when I try to schedule all of my repair work.

Chairman HUMPHREY. Has anybody from the Federal Energy Office been in contact with you to gain the benefits of the experiments that you have carried out here in Washington?

Mr. BROOKS. No, sir.

Chairman HUMPHREY. You just hope that they have read about it?

Mr. BROOKS. Just through the media and the press release that the Mayor had in his office on Friday, that is the only way I think they picked it up. Nobody has contacted me nor the Office of Petroleum Allocation.

Chairman HUMPHREY. Well, it sure seems to me that there is a responsibility to try, as I said earlier here when the other witnesses were here, to catalog these experiences and to make them available nationwide.

Mr. BROOKS. I will say our association is based in Bethesda, and last Monday night we had a meeting with the Montgomery and Prince Georges Commissioners in order to get the Prince Georges and Montgomery Counties, which immediately adjoin the District of Columbia, to give some type of allocation to stations so as to take some of the load off us here in the District. And this is in process now. I don't know what the outcome will be.

Mr. BINSTED. I might say, Senator, that I have discussed it at meetings with FEO, and they have taken the position that they believe the States are in a better position to develop some of the programs for this voluntary or semirationing type program than are they, and that includes the matter of policing priority users and commercial accounts and that sort of thing. Now, this has just been in some meetings with FEO types on different levels.

Chairman HUMPHREY. Well, I think there is no doubt that the responsible State officers and State associations can do most of this,

but as was said here earlier when the witness from AAA was here, for the person that does interstate work and interstate driving and for the people that may be going on a journey, there needs to be some kind of catalog of standardized procedures so they know what to expect as they go along the line. There is much that can be learned from the different experiences that have taken place.

Gentlemen, can the service stations survive as small businesses in America under conditions like those that we have seen lately, where you have to spend most of your time pumping gas and have to forego some of the normal services you extend?

Mr. BINSTED. Well, really, under the original regulations, we could not. We did get some relief because of the fact that we had faced such an enormous reduction in volume in some instances. I think it was brought out here earlier that, when we are talking about operating on 80 percent, we are talking about 80 percent of 1972, not of 1973 when we built up our business. We have tended to lose 2 years' growth which may be anywhere from 6 to 10 percent per year. In some instances service stations have greater rates of growth than that. So to force us back to earlier sales levels with overhead expenses and pricing that are predicated on growth makes it hard. The service station business always was predicated on volume sales, but now we cannot engage in volume sales. And as some of the aftermarket people have been telling us—I believe it was the Purolator filters or one of the other filter companies—their sales were down in service stations. Why? Of course, with fewer hours of operation you have less exposure to the public, and I think that is the answer to your question. Some of the people, the high volume stations, will suffer financially, but will survive. Many of the others will not if the situation is not corrected pretty rapidly.

Chairman HUMPHREY. The fact is that the repair work and services—your sales of tires, batteries and accessories—take time but are a very vital part of the service station operation, are they not?

Mr. BINSTED. It is an interrelated business. We used to look at ratios among different categories of sales, but these ratios have kind of gone out the window. We used to look at ratios and determine whether our businesses were running properly. Of course, there are different types of service stations, but generally speaking you look at ratios of your other products and services to gasoline to see what your business condition is.

Chairman HUMPHREY. Mr. Brooks, do you have any comments on this?

Mr. BROOKS. The only thing I can say right now, as far as the small station is concerned, is that there is a move by the majors to sort of remove the small 30,000-40,000-gallon station here in the metropolitan area. Just 38 miles away, in Baltimore, you have 15,000-20,000-gallon stations.

Chairman HUMPHREY. What do you mean by that?

Mr. BROOKS. In other words, what the oil company considers a marginal station in the metropolitan area of Washington is 30,000-35,000 gallons a month. They don't want to go lower than that; 38 miles away, in Baltimore, they have 15,000-20,000-gallon stations. What they are trying to do now is get rid of all the marginal

stations and just have a few of their major stations with high volume, to sort of regulate the public into buying there. This is the trend. Of course, the small stations are in trouble, if not this year, then next year. Many of them may be gone when this crisis is over, if we don't watch ourselves.

Chairman HUMPHREY. This is the observation in my home State. I mentioned the number of operators that have gone out of business. We are up at the end of the pipeline up there, as you know, and we have a real difficult time keeping the independents as effective and profitable operators around our State. I remember one man up in Sauk Centre, Minn., that had 27 years with one of the major companies, and they just served notice that he was out of business; they canceled his contract. We have had others that serve farm areas that have just been canceled outright. And we have had a tough time in getting replacements. Where do these customers go? They have to go so much further to get their services. In the rural areas this can be a very serious matter because distances are so much longer.

Mr. Binsted, on these regional differences, regional disparities, why are there such differences among regions of the country in prices and adequacy of gasoline supply? We have high prices and long lines along the northeast coast and certain other areas and no lines and prices 10 to 20 cents lower in major oil producing regions and others. Are the major oil companies selling gasoline at the different prices in different regions?

Mr. BINSTED. Well, they always sold at somewhat different tank-wagon prices in different regions, but it generally only varied a cent or so depending on the supply situation in those areas.

I think most of your problem with price differentials now can be traced to differences in the price of the raw product. What you have in some areas is companies that are—let's say that in one city you have a company that has high cost products, raw products, and they are the primary marketer there, or you have two or three of them there that are the primary marketers and only a few of them in that area are the ones producing from lower cost crude. In other areas you may have just exactly the reverse situation. We have seen that happen. I think that is the biggest cause for the difference in prices because, unless they are in violation, I don't see how they can, you know, be that far apart.

As to distribution, one of the reasons is that the system so far just hasn't worked. The FEO 17, as I described earlier, has not worked to provide for the additional product to accommodate growth, and I don't think that FEO itself had a handle on automobile registrations or whatever other criteria they were going to use to determine where gasoline should go. Motor vehicle registrations may work but only to a degree because our population is fluid. We are a country of travelers, or had been, and particularly in this area. In the service stations that I own in Washington, D.C., I probably have as many Maryland motorists buying there as I have District residents because they are 1 mile from the District line. So you can see that even motor vehicle registration is not a total and complete answer to assessing growth needs. Unfortunately I think

we are going through a trial-and-error period here, and I think that motor vehicle registration is probably one thing the FEO can use but not the whole answer.

On the other hand, I think we are going to have to look at the experiences on a month-by-month basis if this thing continues.

Chairman HUMPHREY. One other problem you have. The oil industry in this country is like three or four separate nations. The eastern seaboard depends almost entirely on imports. We in the Midwest depend on domestic plus Canadian; that is between the Alleghenies and the Rockies. And in the Rocky Mountains and the West they again depend upon either California crude or imports. So that there is a difference just by the very nature of the structure. I think it is a rather poor structure, as a matter of fact.

Mr. BINSTED. Well, this is correct. The structure within the industry has been criticized over a period of time because of the vertical control and shared ownership, particularly in the pipeline field.

Chairman HUMPHREY. Right.

Mr. BINSTED. And, of course, we do have pipeline terminals here, you know, bringing the gas in from Texas.

Chairman HUMPHREY. Yes.

Mr. BINSTED. But in the Northeast generally—particularly in fuel oil, I think they are heavily dependent upon imports.

Chairman HUMPHREY. Almost entirely.

Mr. BINSTED. Yes.

Chairman HUMPHREY. Do you see any pattern where the big oil companies that have low-priced oil, crude oil, may very well look at a highly profitable retail area and decide to move their low-priced crude in there to get rid of the independents?

Mr. BINSTED. We see what seems to be a redistribution of markets. We find one major moving out of this area and concentrating in another one; another major moving out of another area and concentrating in a different one. I don't know whether it is a deliberate carving up of the areas but I think it is something the Congress should take a careful look at.

Chairman HUMPHREY. We have seen that out home. We have seen some of the big majors move completely out of our State. They had been there for years and decided they were going to go to Michigan or Colorado, just leaving people high and dry.

Mr. BINSTED. You have got a withdrawal from markets and a reconcentration in other markets; and also a change, as we mentioned earlier, from a branded product to a secondary brand as Phillips did, I believe in Utah. They have got Blue Goose and all the rest of them out there. All the different secondaries.

Chairman HUMPHREY. I have one other little note here about this summer that I think might be interesting. Isn't it likely that the existence of the shortage and the efforts of people to conserve fuel will so change driving patterns from 1972 that gasoline demands will shift greatly from the pattern of driving that existed in that base period? For instance, if people take their vacations closer to home this year, wouldn't we find unprecedented gasoline demands in the nearby vacation spots and less than 1972 in the far off na-

tional parks, the Rock Mountains and the Big Horns, et cetera? If city people take fewer excursions in the country, won't the focus of gasoline demand tend to shift from the country to the city? Will FEO be able to foresee it? Even if they foresee it, can they act to anticipate shortages under the rules?

Mr. BINSTED. I think that is one of the problems. As I mentioned, I don't believe that motor vehicle registrations were a perfect answer to the problem of assessing shifting demands, and your example illustrates one of the problems in dealing with just motor vehicle registrations. I think another illustration of it has already occurred. We had a report from Georgia, for instance, that the service stations on their interstate highways that were not located contiguous to a large metropolitan area were sometimes—their sales were sometimes off as much as 60 percent.

Chairman HUMPHREY. Yes.

Mr. BINSTED. So you will find that. Yes, this problem must be addressed, and I don't know how they can do it without looking at it on the basis of experience, because you have to project what the motoring public is going to do. If they have a feeling that gasoline is going to be there and will be available, I think they may drive. But the thrust of the educational program by FEO so far has been to conserve on nonessential driving, and if this has the effect they intend for it to have, when summer gets here maybe the people will not be on the road.

Chairman HUMPHREY. Well, I can tell you we are already getting letters in our office saying, "Is it possible for me to drive to Washington? Can I be sure I will get gasoline all the way?" They don't know. They know from Mankato, Minn., they can get gasoline up to Madison, Wis., but they are not a bit sure from there on out. The local radio and television bring them that news, but from there on out they don't have the slightest idea.

Working people, of course, are not the ones that travel in the Caribbean; they just like to get up to a northern Minnesota lake with a canoe rather than to the Caribbean with a yacht, and they are wondering whether they are going to have enough gas. I am just posing this problem. We are going to bring this up with Mr. Sawhill because the whole recreation industry is in absolute total confusion and, of course, much of it is in serious economic difficulty today.

Out our way, for example, an industry that meant thousands of jobs for our people, was the snowmobile. That industry has just about disintegrated because of lack of fuel and the pressure that was brought to conserve fuel. Well, you try to find me 2,500 jobs for people out at Thief River Falls, Minn., you know, that is the difference between living well and starving or going broke. And, you know, you can sit down here in Washington and philosophize and talk about the Nation and all that, but I have to go home and talk to the people in hometowns. When I get out there, I find out they are just out of luck; all they have now is welfare and unemployment compensation and, quite frankly, the folks I am privileged to represent—when they need it, we want to give it to them—but they prefer, like you people, to go to work and make a living.

We have got one heck of a mess on our hands. I really worry about this summer. The winter we have survived because winter recreation is not as elaborate and extensive in our area as summer recreation. Of course, we have just dozens of people going out of business out there this year even though we have had less difficulty with the shortage than you have had here on the Eastern Seaboard or in the middle Atlantic States. We are not as populated, we don't have the extreme change in population patterns, but in the summer time we are a big recreation area. Recreation is the second largest industry in my State next to agriculture, and we are really worried about what is going to happen. We have got hundreds of millions of dollars in investments in recreation and we have some of the finest facilities. And people come from down south up to Minnesota in the summer time. They like to come up here. Ely, Minn., Brainerd, Minn., lovely areas in the northern part of our State. People come from the Eastern Seaboard. It is family country. This isn't Tahoe or Las Vegas. You are not out there to gamble, except see whether you can catch a fish. We are just wondering whether anybody is going to be able to drive out there at all, and I am getting letters from people right now from different parts of the country who say, "Do you think if I can get to your State I can get some gasoline?"

MR. BINSTED. The truth is that, allocations are based on motor vehicle registrations, they will not take care of a large influx of people you have coming into your State as tourists. Incidentally, we are going to bring our convention to your State next year.

Chairman HUMPHREY. Where are you going, to Brainard?

MR. BINSTED. Yes, sir.

Chairman HUMPHREY. You'll love it.

MR. BINSTED. I have forgotten the name of the lodge.

Chairman HUMPHREY. It is beautiful out there.

Well, I have to let you go. I get to talking about Minnesota and I want to go home right now. There are a lot of folks who think I never should have come down here.

Thank you very much, Mr. Brooks, and thank you very much, Mr. Binsted.

[The following information was subsequently supplied for the record by Chairman Humphrey in the context of the testimony of Mr. Binsted:]

NORTH CAROLINA SERVICE STATION ASSOCIATION, INC.,
Raleigh, N.C., March 27, 1974.

Attention: Dr. William Cox.

Senator HUBERT H. HUMPHREY,
Joint Economic Committee, Subcommittee on Consumer Economics, Senate Office
Building, Washington, D.C.

DEAR MR. COX: Enclosed is a report of the conditions in North Carolina. This information is to accompany the testimony of Charles Binsted, Executive Director of National Congress of Petroleum Retailers before the Joint Economic Committee, Subcommittee on Consumer Economics hearings on Gasoline Distribution, March 12, 1974.

Sincerely,

AVERY C. UPCHURCH.

Enclosure.

SUMMARY REPORT OF AVERY C. UPCHURCH, EXECUTIVE DIRECTOR,
NORTH CAROLINA SERVICE STATION ASSOCIATION, INC., ON ABUSES OF BULK
GASOLINE STORAGE, MARCH 27, 1974

The North Carolina Service Station Association has received reports from throughout North Carolina of installation of gasoline pumps and tanks at Commercial establishments. Federal Energy Office by its regulations places all Commercial establishments as priority users of gasoline, therefore, they are allowed to submit an application and be assigned a supplier.

This Association request an immediate change in these regulations. If gasoline is available for this use the Service Station at which these businesses are purchasing gasoline should be supplied the amount allocated these firms.

Violations of the Federal regulations are taking place at privately installed gasoline tanks. Gasoline allocated is supposed to be used entirely for the operation of the Commercial establishment. None of the gasoline should be used in personal vehicles, however, we know this is being done in all cases investigated. The following list gives examples from several cities in the State. The Association Office has names of all businesses mentioned and will disclose to proper authority for investigation. It would be very easy to increase this number by several hundred. All tanks installed included in this report have taken place since January 1, 1974.

Goldsboro, five Companies, three of which installed tanks for the first time, two others enlarged present facilities.

A dealer in Charlotte reported four firms installed tanks during March ranging from one to five thousand gallons, also, reported by another dealer, a Charlotte base firm has leased several abandoned Service Stations in North and South Carolina for the purpose of storing gasoline.

A dealer in Sanford, reported four firms installed tanks and have gasoline, also, from that area is reported a man who owns a horse and has four automobiles has been allocated farm gasoline, this man is not a farmer.

A dealer in High Point reports that a Gulf Service Station is closing after fifteen years and a Commercial account at that Station desired to begin trading with the dealer making this report. The FEO office informed this Commercial account to complete a FEO 17 and they could receive gasoline in a tank at their business. This gasoline could not be delivered to the Service Station.

A dealer in Greensboro reports that a wholesale Florist purchased an average of 5,000 gallons per month. They now have their own tank as of February 1974. This dealer no longer services the vehicles from this firm which included personal cars.

A dealer in Raleigh reports tanks being installed in his area and as a result he will lose seventeen accounts ranging from 400 to 4,000 gallons per month. This station was built in a location to service such accounts. This will cause the dealer to lose his business. If all of these businesses in that area are allowed an allocation it should go through the Service Station. This dealer also reports a Commercial firm is allowing employees to buy gasoline from the Company tank for their personal use. Also, from Raleigh a dealer reports that he lost a 2,000 gallons per month account in March 1974. Part of this gasoline was for personal family cars none of which have returned to the Service Station. Another Raleigh dealer reports he lost a Commercial account March 1, gasoline sales of \$500.00 and also he lost over \$300.00 per month in other products and services.

It is also reported a City Bus system is selling employees twelve gallons of gasoline per week out of Company supply.

There has been many reports of Commercial businesses purchasing gasoline at Service Stations and using their personal storage as a back up supply whenever the local station is without gasoline.

In all cases cited the dealer is losing gasoline sales as well as the sales of other products and services required. We see no reason that Service Stations could not receive gasoline and records could be kept to show that all firms received its proper allocation.

The North Carolina Service Station Association feels this an adequate number to indicate the seriousness of the problem. A system must be devised by which the Service Station dealer can honor priority users and obtain the necessary gasoline.

Chairman HUMPHREY. We have another witness here, Bill Brier, accompanied by Donald Hanes.

Sorry to keep you waiting so long, Mr. Brier. You are with the National Council of Farmer Cooperatives, is that correct?

Mr. BRIER. Yes, sir.

Chairman HUMPHREY. And Mr. Hanes is your vice president in charge of public relations, and you are the director of energy resources?

Mr. BRIER. Yes, sir.

Chairman HUMPHREY. We are keenly interested in what you have to say. You just proceed. We are trying to build a record here. Two days from now we have the Government witnesses here and we thought we would get you folks in here so we can ask some better questions of our Government witnesses.

Go right ahead, sir.

**STATEMENT OF BILL BRIER, DIRECTOR OF ENERGY RESOURCES,
NATIONAL COUNCIL OF FARMER COOPERATIVES, ACCOMPANIED
BY DONALD K. HANES, VICE PRESIDENT, PUBLIC RELATIONS**

Mr. BRIER. Thank you, Mr. Chairman. My name is Bill Brier and I am director of energy resources for the National Council of Farmer Cooperatives. I am accompanied by Don Hanes, vice president, public relations of the council. The national council is a nationwide organization of 106 farmer-owned and controlled regional cooperatives business organizations, plus 32 State councils of farmer cooperatives. These cooperatives in turn serve about 1.5 million farmer members throughout the United States. Farmer cooperatives own and operate eight refineries which supply about 40 to 50 percent of their total fuel needs. The remaining product is purchased on the outside, generally from major oil companies.

Supply cooperatives are committed to serving the fuel needs of their farmer-members. Depending on the cooperative involved, 50 to 90 percent of all fuel sold through the cooperative system qualifies for "agricultural production" under Federal Energy Office regulations. In addition, another 5 to 15 percent of the fuel sold by cooperatives falls into one or more priority categories.

Briefly, the national council would like to discuss the importance of agriculture to this Nation. Agriculture is literally the lifeblood and the cornerstone of this Nation's economy. The energy crisis and thus the dependence on oil imports makes agriculture the most important offsetting export this Nation has. Thus there is an obvious need for a national commitment to full agricultural production.

Unfortunately domestic fuel shortages have a much more severe effect on agriculture than on the Nation as a whole and make it practically impossible for agriculture to meet this Nation's food and fiber production goals without Government assistance. The National Council estimates that a 15 percent domestic fuel shortage could be translated into as much as a 20-25 percent fuel shortage in agriculture. This differential between agriculture and the Nation as a whole exists principally for four basic reasons:

(1) As energy supplies constrict, historic major suppliers with-

draw from rural markets in favor of the higher profit urban markets. Since no more than three or four major suppliers serve any one rural market, the withdrawal of a single supplier can decrease fuel supplies significantly. Remaining suppliers cannot take up the slack since many of them already have current customers on allocation. This phenomenon causes significant supply-demand gaps in some markets.

(2) Independents, including cooperatives, which are historic suppliers in rural markets are more vulnerable to constriction in supplies because of this traditional dependence on the major oil companies. When major oil companies' fuel supplies constrict, a normal marketing practice comes into play. Oil companies with large retain operations try to restrict outside sales so as to conserve fuel for sale through their own retail operations.

(3) The fuel needs of agriculture are up more dramatically than the Nation as a whole. While there is no set-aside, 45 million new acres have been committed to production since 1972. The new acreage is probably more marginal, thus requiring more fuel per acre.

(4) The fuel needs of agriculture are unique in that specific fuels are needed at specific times for specific purposes. Generally no acceptable substitute can be made available. Agriculture is different from other businesses in that lost production cannot be made up. Fuel must be available for planting and harvest at the specific times needed. By the same token, a farmer is limited by the fuel he can use based on the equipment he owns. Suppliers also lose a degree of flexibility during periods of short supply since reduced inventories make it difficult, if not impossible, to respond immediately to spot shortages which often develop in rural areas during periods of heavy fuel use.

After briefly examining the importance of agriculture to the national economy and the unique problems of agribusiness in obtaining adequate fuel supplies, the national council would like to comment briefly on the Government response to these problems. Significant problems have been encountered on the operations level of various fuel programs. However, the council believes that a firm commitment to a high priority for agriculture exists at the highest levels of both the executive and legislative branches of Government. For the sake of discussion, the National Council would like to divide these problem areas into eight broad categories.

The first problem is the priority for agriculture.

The national council feels the subcommittee should be aware that the mandatory fuel allocation program as interpreted by the Federal Energy Office will not guarantee "agricultural production" will receive 100 percent of its current energy needs as widely assumed. The problem is that while the regulations provide that the qualifying end users will receive 100 percent of this current needs, they do not guarantee that the end user's supplier will be able to obtain that fuel.

If a supplier not directly supplying an end user has an allocation fraction of less than one, and if demand exceed his supply, he then subjects fuel destined for certified agricultural production to his allocation fraction. Since there are shortages, it is safe to assume

that most suppliers' allocation fractions will be less than one. Thus, in many cases, agricultural production will be limited to a portion of current needs rather than 100 percent.

The second problem is the propane program.

Chairman HUMPHREY. Boy, and how.

Mr. BRIER. The importance of propane to agriculture cannot be overemphasized. In particular, swine, poultry, and grain production are heavily dependent on this important farm fuel.

In addition, the entry of nonhistoric users into the market have until recently made it extremely difficult for agriculture to obtain the propane it needs. Manufacturing and utilities are becoming large users of propane as a substitute for natural gas when that fuel is not available.

The national council is concerned that the mandatory allocation portion of the propane regulations will in essence expire on April 30. The council strongly believes that either new regulations should be written or the current regulations extended.

The public should not be lulled into a false sense of security as a result of the current surpluses since it is important to note that the production of propane has not increased significantly. Given the proper weather conditions these surpluses can rapidly disappear.

Chairman HUMPHREY. What about prices. My propane prices back home in Minnesota are up 300 percent. I have never seen anything like it. They went up from 17 cents to 47, 48, 49 cents, something like that, and the reason, they say, is that there is a scarcity and we have got to raise the price.

Mr. BRIER. Well, I think if you will check recent figures you will notice that there has been a drop of several cents a gallon.

Chairman HUMPHREY. Just recently, because the FEO went after them and started to get after some of these industrial users of propane.

Mr. BRIER. That is right, but surprisingly enough right now there is a surplus of propane. In fact, I understand that some of it may have been flared recently in California.

Chairman HUMPHREY. Well, I'll be damned.

Mr. BRIER. Storage tanks for the most part are full.

Chairman HUMPHREY. Isn't that something, and our people out there—we get more letters about propane. We are big poultry raisers, the largest turkey State. We need propane to dry up the corn, to dry the soybeans. We have got to have it and we have had one heck of a time, and the price has been exorbitant.

Mr. BRIER. I think a lot of the problem was based on the pricing regulations of the Cost of Living Council before the FEO came into existence, which caused large quantities of propane to be artificially kept off the market. In other words, the majors that owned propane were forced to sell that propane at, say, 6 to 9 cents a gallon. Since the market price was, let's say, 20 cents a gallon, obviously they were very hesitant to put that propane on the market. At the same time there was a number of independents and brokers who, of course, took advantage of the situation. Unfortunately they were not covered by the pricing regulations and sold propane for 40 cents a gallon or whatever the market would bear.

Chairman HUMPHREY. Then they get after the people for cheating on their income tax. This is worse. I am pleased that you have given us this testimony because I am personally very much upset about this problem. The whole neighborhood where I live in Minnesota, the whole community uses propane. The lady that keeps our home out there in Minnesota—I asked her, I said, “Irene, what is your fuel bill?” She has just a little-bitty house. She paid \$187 in the month of February for propane. My own bill for the 1 month that we were out there was \$267 as compared to \$90 a year ago.

Mr. BRIER. Well, I think if you look at the artificial pricing problems that were created by the Government, and then also look at the nonhistoric users that are coming into the market, the shortages are easy to understand. I think you would be surprised to find out, for example, how much propane Washington Gas Light Co. has in storage, for example, in Conway, Kans., which is a large propane depot for the entire Nation. While perhaps necessary, these types of tactics keep large amounts of propane off the market and unavailable to agriculture.

Chairman HUMPHREY. I won't ask you any more questions. My temperature is rising.

Mr. BRIER. Turning to the lubricant program. Subpart K of the mandatory allocation program does not provide priorities for any class of users. Lubricants are to be allocated according to the corresponding calendar quarter of 1972. Agricultural production has not as yet suffered from this lack of priority primarily because many suppliers have been providing lubricants based on current needs rather than the regulations.

However, the national council doubts this can go on much longer. Therefore, it seems logical that priority users of lubricants should be provided the same priorities they receive under power fuel classifications. Without necessary lubricants, gasoline and diesel supplies for agricultural production at the level of current needs are useless.

I would like to comment briefly on Federal Energy Office coordination. Unfortunately many of the mandatory programs are not working because of bureaucratic buckpassing between two levels of Federal and one level of State responsibility. There is an absence of strong administrative authority from Washington. Often State and regional offices are forced to handle problems with little direct guidance or assistance producing different interpretations of the same rules. The national council believes that strong central leadership is necessary for an effective nationwide allocation program adequately serving the needs of priority users.

I would also like to comment briefly on two-tier domestic crude oil prices. The Government, by regulation, fixes the price of so-called domestic old oil at about \$5.25 per barrel. This production accounts for about 70 to 80 percent of the total domestic supply. Newly discovered oil and stripper oil is exempt from price controls and currently sells for about \$10.35 per barrel.

This policy discriminates against cooperatives and many other independent refiners because their inland refineries are often located near fields with an unusually high percentage of stripper well production. Thus, the farmer buying from a cooperative, which in some

cases is his only source of supply, is paying as much as 5 to 10 cents a gallon more for his product than his counterpart buying from a major oil company.

The national council strongly supports a one-tier pricing system to eliminate this obvious inequity. Oil under this system should be priced high enough so as to not discourage stripper production in States where refineries utilizing this product are located.

In addition, no specific provisions are made under current regulations to move fuel supplies to a given geographical area to adjust to seasonal needs of agriculture. During harvest and in some cases planting, large influxes of labor are generally necessary to handle the extra work. This labor generally travels long distances to follow planting and harvesting patterns. At the same time, the farmer is now under increasing pressure to guarantee the availability of fuel supplies before crews commit themselves to a given area.

Because of the limited time period for planting and harvest, the national council strongly believes fuel must be committed to given area in anticipation of the peak fuel needs of agriculture.

As was mentioned earlier in the testimony, suppliers are withdrawing for economic reasons from many rural markets. This leaves a gap between supply and demand which remaining suppliers are unable to fill. Therefore, provisions must be made to either significantly increase fuel supplies in these areas to remaining suppliers or prohibit major suppliers from withdrawing from less profitable rural markets in favor of higher profit urban markets.

By 1985 about 30 percent of U.S. oil output from the continental United States will come from offshore sources. The offshore areas probably hold the greatest remaining uncommitted domestic oil reserves. Unfortunately, the Government discriminates heavily against the independent seeking to enter the market.

Much of the problem is bonus bidding. Bonus bidding, coupled with low royalties, has the effect of excluding independents by requiring large initial cash payments unrelated to exploration or production. This ties up vast amounts of capital which is difficult for independents to justify or even raise.

The national council would also like to take this opportunity to comment briefly on two recent charges against agriculture made by various groups. The first complaint is that farmers are hoarding fuel because of their high priority category. The second complaint is that the definition of "agricultural production" is too broad.

In the council's judgment, the American farmer is not hoarding fuel. Full on-farm fuel storage tanks are normal at this time of year and represent an effort by the farmer to prepare for planting season. In many cases, on-farm storage tanks have no more than a 300-500 gallon capacity—hardly enough to take most farmers through the planting season and less, in most cases, than a 30-day supply.

As for the second criticism, there is no question that the "agricultural production" definition is broad. However, the national council would like to emphasize that without adequate fuel for transportation, processing, and marketing, on-farm fuel is meaningless and a priority category for agriculture is useless.

In closing, the national council pledges that farmer cooperatives, despite the adversities described today, will continue to try to meet the fuel needs of rural America. The council is convinced that cooperatives, based on the strength of their farmer-owners, can meet the challenge. Farmer cooperatives are committed to this market and are currently working on methods to increase their ability to provide fuel to meet this Nation's food and fiber goals.

Chairman HUMPHREY. Very good testimony. Thank you very much, Mr. Brier. I want you to know that as you have been testifying I have been marking up your testimony to ask questions of Mr. Sawhill on Thursday, so that we can get some clarification here and also to get some reemphasis upon agricultural needs as we go into this planting season.

Now, I have a few questions, just very brief ones, because we are late.

As you have stated, wholesalers and retailers are provided with a set percentage of their 1972 base.

Mr. BRIER. Yes, sir.

Chairman HUMPHREY. Yet they are expected to serve their priority users with 100 percent of their current needs from this total. This may work in most areas but it does not work for the rural supplier who has mainly priority users, for example, farmers. Regardless of what the regulations say about the farmer's priority, he simply cannot get all he needs from his supplier who is being limited to a set percent of his 1972 base. Farm acreage has gone up since then. The demand is greater. What do you see the FEO doing to correct this disastrous misallocation before it hits our farmers during spring planting?

Mr. BRIER. In my judgment the Hess telegram which was sent out to all regional offices is basically responsible for this new interpretation. Up until about a month ago when the telegram was sent, most major oil companies were defining agricultural production as coming off the top; in other words, current needs meant that current needs not subject to an allocation.

Chairman HUMPHREY. Fine. We'll look into that with Mr. Sawhill, too. The scarcity of fertilizer this spring could very easily result in substantial shortfall in projected U.S. agricultural production.

We have had other hearings on fertilizer. While part of this problem of shortage results from lack of adequate fertilizer producing capacity, part also results from a scarcity of natural gas essential to fertilizer production. Therefore, the question: Are our fertilizer producers getting enough natural gas to permit them to run their plants very close to capacity? If not, how can this critical problem be overcome so that production can be quickly maximized and grocery store prices held under reasonable control by better production? This is, of course, the administration's formula to control inflation. What do you have to offer us in terms of information on this subject?

Mr. BRIER. Well, Mr. Chairman, as far as cooperatives are concerned, they are building new anhydrous plants in Canada, because there are not enough natural gas supplies in this country. I think

a lot of the problem is based on the fact that we are wasting a lot of natural gas. For example, we allow natural gas to be used by electrical utilities to generate electricity which is then used to provide heat when we could provide that natural gas directly to the end users and save three times as many Btu's.

I think we have to recognize that natural gas is really the cadillac of all the fuels that we have. Due to pricing policies in the past, a lot of manufacturing companies have obviously turned to this as a source of fuel because of its cheapness and availability at the time, when in reality they should have been using some other fuel. I think we got into a situation where we made a lot of commitments and we don't have the exploration going on for natural gas that we had 5 years ago. So I think basically it is a reexamination of the pricing policies for natural gas and a decision by the Government to limit natural gas to certain historic users that are needed.

Chairman HUMPHREY. Very well. Farmers are complaining that they are being asked by suppliers to fill out an FEO form 17 for each delivery. You're familiar with that? That is a nuisance and, of course, it costs them time. As I understand it, the vast majority of these sales do not require an FEO Form 17 under current regulations. Apparently the oil companies either misunderstand the FEO regulations or wish to harass our farmers, or else they have some game they are playing with these forms. What do you know about this situation and its motivation, and what can we do to remove the unnecessary burden on our farmers?

Mr. BRIER. From the standpoint of farmer cooperatives, we have in some cases required farmers to fill out the form once to give us his estimated fuel needs. The reason for this, I think, is a recognition on the part of a lot of the oil companies that they are essentially vulnerable if they can't justify priority supplies. In other words, they are taking supplies from other users and they want to protect themselves legally, and unfortunately the farmer winds up the fall guy.

As far as our cooperative system is concerned, we feel reasonably confident that our local cooperatives could provide accurate estimates of priority needs without the farmer becoming involved in the long form-filling out process.

Chairman HUMPHREY. Now, a question on our Nation's migratory labor forces. They are a big group in our country. They are concerned they won't be able to earn a living in the spring and summer unless some steps are taken now. Not only will these workers suffer if they cannot be assured of gas they need. Many of our fruit and vegetable crops simply will not be harvested. Of course, this will mean bankruptcy to so many. I have got a considerable amount of data on this. What must be done by the FEO to protect thousands of migrant farmers, the farmers that they work for, and the consumers who will pay the ultimate consequences of failure to give our migrant workers enough gasoline?

Mr. BRIER. I think a recognition is developing right now of the problem at FEO and movement of supplies into areas prior to harvest or planting would help solve the problem. In other words, we can't respond to this type of labor problem in agriculture as we

responded to the retail gasoline sale problem here on the east coast. We can't wait until it is already upon us and then try to do something about it. Obviously the farmer will lose his crop that way. So I think it is an issue of anticipation.

Chairman HUMPHREY. I think we will conclude our hearing. Thank you very much.

Mr. BRIER. Thank you.

Chairman HUMPHREY. The subcommittee stands recessed until 10 o'clock Thursday morning, when we will hear from John Sawhill, Deputy Administrator, Federal Energy Office; Fred Allvine, professor of marketing, Georgia Institute of Technology; and Herbert Elish, director, New York City Energy Office.

[Whereupon, at 12:55 p.m., the subcommittee recessed, to reconvene at 10 a.m., Thursday, March 14, 1974.]

GASOLINE DISTRIBUTION

THURSDAY, MARCH 14, 1974

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON CONSUMER ECONOMICS
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:10 a.m., in room S-407, the Capitol Building, Hon. Hubert H. Humphrey (chairman of the subcommittee) presiding.

Present: Senators Humphrey, Proxmire, Javits, and Percy; and Representative Fraser.

Also present: Loughlin F. McHugh, senior economist; William A. Cox and Lucy A. Falcone, professional staff members; and Michael J. Runde, administrative assistant.

OPENING STATEMENT OF CHAIRMAN HUMPHREY

Chairman HUMPHREY. I will call to order the meeting of the Subcommittee on Consumer Economics of the Joint Economic Committee, and I want to thank Mr. John Sawhill for his cooperation in making his time available to us today. It seems like we do take a great deal of your time but I think it is quite necessary at this stage.

I have an opening statement, Mr. Sawhill, that I want to read. It will not take too long and you may want to make some comments.

Of course, we are all very pleased, as we read the morning press, to learn that the Arab oil embargo is about to be lifted. At least that is the indication, and we hope that that is the fact. This is good news and should provide some measure of relief to motorists by the beginning of the peak summer driving season, and indeed, some measure of relief to our entire economy.

However, this does not change the fact, as I see it, that we have a long-range or long-run energy crisis. Supplies were tight before the embargo and will be so after it is lifted. This subcommittee was conducting hearings almost a year ago on the energy problem and at that time we were deeply concerned as to the race between supply and utilization. We must, therefore, not relax our conservation efforts nor our efforts to produce more of our own energy at home, and I worry in light of the attitude of many of our fellow Americans that when things seem to ease up, we seem to ease up. I would hope that we would concentrate our attention upon the conservation efforts that we made thus far and maintain them. Both endeavors—conservation and producing more of our own energy—are essential if we are to eliminate the threat of foreign economic blackmail by those who control the oil taps.

I might mention that there still is no peace in the Middle East. Artillery duels between Syria and Israel are in their third day. We hope and pray that the lifting of the embargo is a permanent action on the part of the Arab nations, but it could be reimposed if there were renewed hostilities. It is thus very important that we maintain certain reserves and also certain practices.

The Federal Energy Office's gasoline allocation program underwent a severe test in February and emerged, I would say, with rather mixed reviews. Critical supply deficiencies in many areas took more than a month to relieve. At the first sign of relief, President Nixon declared that the energy crisis was over, but not even his own energy advisers seemed to believe him. Two days after the President's statement, you, Mr. Sawhill, whom we shall hear this morning, told a group of journalists that, "the energy crisis is not even fully upon us yet." I might add, from my point of view, I think you are right. And the March allocations of gasoline to nearly half of the States actually provide less gasoline per day of the month than in February. This applies to many of the States hardest hit by the February shortage.

Now, the total gallonage is up from March, of course, but the arithmetic of our calendar is rather interesting. There are 31 days in March and 28 days in February, so the per-day amount of gasoline is reduced below the February levels.

The fact that the March allotments appear to be smaller on a daily basis in these States raises the question why the gas lines disappeared so promptly after the first of the month. Of course, some redistribution of supplies was carried out by FEO, and some improvements were introduced in service station hours and practices. It also is possible, however, that FEO's announcement that dealers and refiners would receive higher markups on gasoline after March 1 resulted in a buildup of supplies all along the distribution chain and accounted for much of the shortage prior to March 1. This would account for the big jump in primary gasoline inventories reported by the American Petroleum Institute for the week ending on March 1.

In other words, the inventories were building up as the lines were longer, and now that the price has gone up, the inventories seem to be available and the lines are shorter.

If this is what did occur, it was a major mistake by FEO to announce the price adjustments in advance of their implementation. In the same vein, we might ask whether the delay in pass-throughs of crude oil cost increases until the first of each month may help to explain the end-of-month shortages that have caused such inconvenience to motorists each month since November. I guess what I am saying is that I do not trust the oil companies on this business. They have been making exorbitant profits, incredible profits, shameful profits in many instances, at a time when many people are being taken to the cleaners. The average American family is paying \$200 a year extra for gasoline while the oil companies are wallowing, to use an often-repeated word, in profits. And so I get a little suspicious when I see the inventories that were built up at the end of February and were available in large amounts in the first week of March at the very time, of course, that a price

increase came in. There were long lines of cars in February and the lines are shortened in March.

Now, if I had not been in Washington so long, I might not be so suspicious but, I am suspicious.

While most peoples' eyes have been riveted on the long lines at the gas pumps, the oil companies have raised retail gasoline prices 30 percent in the last year at a cost of about \$200 a year for the average American family.

Indeed, it appears that the oil companies' strategy has worked. The oil embargo is about to be lifted. Oil companies, I repeat, are reaping exorbitant profits. The ranks of independent dealers have been decimated and thousands of franchised operators are threatened with contract termination. And, a number of other market factors make the future look bright for the big oil companies and bleak for the independents and consumers.

On Tuesday, this subcommittee heard testimony that Federal regulations were at least partly to blame for the astronomical price levels reached this winter for propane, which is widely used for heating in rural areas, especially by lower income people and people on farms. The subcommittee was told that low price ceilings on propane caused substantial hoarding. We also learned that the provisions for passthroughs of refining costs caused excessive mark-ups on propane by oil refiners. The price of propane went up to many times its normal level during the heating season, and now, coming to the end of the season, we are told that huge surplus of this fuel exists all across the country. It is this sort of thing that destroys all credibility in government and, may I say, destroy confidence in the private enterprise system.

Other testimony before the subcommittee indicated that the system of end-user priorities for gasoline is not working satisfactorily in some cases. In particular, rural petroleum dealers, who are supposed to supply farmers with the full amount of their current gasoline needs, are getting the same reduced quotas of gasoline as other distributors. In other words, the priorities system does not apply at the dealer level, and some rural dealers—especially farmer cooperatives, as they testified here the day before yesterday, are not getting enough to fully meet the requirements of their priority customers. Now, listen, we are pinning our hopes of stabilizing food prices and of paying for our oil imports on the ability of farmers to produce record crops this year. This will require much more fuel than in the 1972 base year of the allocation program rather than less.

Apparently, the FEO and the Department of Agriculture have not been talking to each other. Since 1972, our farmers have been exhorted by this Government to plant an additional 60 million acres to meet rapidly expanding export demand. Now that is as much as all the food acreage in the whole country of France. That is a lot of acreage. Our effort to get this additional production from our farms is undermined by the lack of an adequate allocation of petroleum products for planting, transporting, drying, and harvesting this additional crop.

I might add that this, of course, is tied in with our fertilizer situation. I see that at long last the Secretary of Agriculture now

admits that there is a shortage. We had him here before this committee, and we were discussing this possibility, and in the main he did not think there was too much of a shortage. He now feels that there is a need for 4,000 boxcars or hopper cars to move fertilizer into the grain-producing areas. I have been trying to tell him that, may I say, Mr. Sawhill, for months. You and I are both from Minnesota.

I can tell you I should just send my mail to any office in this Government. You need to know what the people are saying, not what these statistics down here show, but what the folks are saying, and the fertilizer situation in the grain-producing area is critical. With the critical shortage of fertilizer, with an inadequate allocation of fuel, I want to announce from this podium right now that the estimates of the Department of Agriculture on production are as phony as a Confederate \$3 bill. It is a shame that the American people will be deceived and deluded into believing that all will be well when two of the most important farm inputs—in fact three inputs, fuel and fertilizer and transportation—are in short supply. We have not even moved last year's crop from our country elevators, as you know. So all you good friends here from Washington that are not familiar with the rural areas, let me just say to you that you are not feeding anybody as long as the country elevators are full and it cannot be transported to the terminals. You can literally starve to death in a mountain of abundance.

I have got to keep pounding away at this until we get this message through this rather—I do not know what you would call it—this thick-skinned, thick-headed Government that just will not respond to what are the facts.

Now, our effort to get this additional production from our farmers, as I said, is undermined by the lack of adequate allocation of petroleum products for planting, transporting, drying, and harvesting this additional crop. Of course, another important implication of this problem is that the nonpriority customers of these rural fuel dealers will have no gasoline at all.

Whatever the apparent end of the Arab oil embargo brings for the gasoline situation, it seems likely that supplies will tighten in the latter part of the year. At least I would like your comments upon that, Mr. Sawhill. That is just a personal observation, especially if the economy recovers, as we hope it will, and if the oil exporting countries do not significantly expand their present rates of production, which is by no means assured even as the embargo is lifted. This means that the possibility of gasoline rationing is not dead. More and more questions are now being raised about the equity and workability of the rationing system outlined by FEO in January, but I should note that no public or congressional debate on the details of this plan has taken place up to now. We hope to initiate such a discussion and dialog on it today.

These many questions and complaints focus attention on the fact that the Federal Energy Office has a very difficult job on its hand. I sympathize with Mr. Simon and Mr. Sawhill in dealing with the intractable problems of this shortage. Now, however, more and more we hear from both FEO insiders and from those trying to deal with FEO from outside, that there is confusion in the agency.

Often, it seems, the regional offices do not carry out the rules as the headquarters purports to intend. And the turnover of personnel in the decisionmaking strata at FEO, and the appointment of new people to positions of responsibility, it has been indicated, is hampering the effectiveness and continuity of policymaking.

I have not been a critic of the FEO. I know that you have wrestled with this problem under the most trying circumstances, and I think that I have been rather, I would say frankly, complimentary of Mr. Simon and yourself, but there are certain problems that we have that I think it is time we look into. So I would hope that we could discuss some of these problems together, straighten out at least a few of them, and initiate the solving of others.

I have taken your time but I want you to know this is not merely my thinking but the thinking of some other members of this subcommittee that have participated with me in this work, and of our staff.

You proceed, sir. Thank you very much.

**STATEMENT OF HON. JOHN C. SAWHILL, DEPUTY ADMINISTRATOR,
FEDERAL ENERGY OFFICE, ACCOMPANIED BY WILLIAM VON
RAAB, SPECIAL ASSISTANT; AND DARRELL SMITH, DIRECTOR,
DATA SYSTEMS ANALYSIS**

Mr. SAWHILL. I have a rather long prepared statement, Mr. Chairman, and I thought rather than reading the whole thing I can summarize it.

Chairman HUMPHREY. Thank you; we will include it in the documentation here.

Mr. SAWHILL. The first part of the prepared statement summarizes the primary goals of the allocation program, the first of which is equity; that is, to assure equitable distribution of our fuel supplies.

The second is to manage the shortage so as to preserve employment. We went into the program of cutting back gasoline so we would make fuel available for industry in order to keep people employed.

And the third is the principle of decentralized responsibilities; that is, putting decisions out into the States and local governments and into our regional offices.

You correctly point out that we have brought together an agency very rapidly. We began in December with less than 200 people on board. Now we have more than 2,300 people on board.

Building an agency this rapidly, putting into place 10 regional offices, certainly means that there have been administrative problems. We just have to admit that frankly and honestly, that we have had some administrative problems, but by the same token. I think we have been able to get on top of many of these problems. I feel myself a real sense of building in our organization and a real sense of maturity, and we go through week-by-week and gain a better understanding of our regulations, and the industry gets a better understanding of them, and our own employees become better trained and more experienced in what we are doing.

One of the things that has hurt us, of course, is that we have not yet had a statutory base for our organization. We need a bill establishing the Federal Energy Office. Of course, such a bill has passed the Senate. It has now passed the House and gone to conference and we are hopeful that we will get it.

Chairman HUMPHREY. Yesterday was the conference, I believe.

Mr. SAWHILL. Yes, the program obviously that most of us are directly concerned with now is the gasoline allocation program. Just to put this in perspective, I think we should think back to last fall when people were concerned about blackouts and brownouts. People were concerned about unemployment rates of 8 to 10 percent and in fact, we have been able to get through this winter without those things occurring. Nobody last fall wrote articles about long gasoline lines and said that was the thing that Americans were concerned about. They were concerned about their jobs and, fortunately, there are more Americans employed today than there were last November. While our unemployment rate is still too high, 5.2 percent, it has stabilized at this level, and perhaps we have got the employment situation somewhat under control. And now we have got to attack some of the other problems you identified.

As far as the gasoline problem is concerned, the Emergency Allocation Act requires the equitable distribution of available petroleum products, including gasoline, among all regions of the Nation, all sectors of the petroleum industry, and among all end users.

We issued regulations under this law, and under these regulations each supplier of gasoline must distribute available supplies on a pro-rata basis to each retail service station which it served during 1972. So we have gone back to a 1972 base as required in the law.

Stations without a historical supplier may be assigned a supplier and a base period volume under the new customer provision of the regulations. If a supplier does not have a sufficient supply to meet the base period volumes for all its retail service stations, the regulations require him to reduce his deliveries to all stations proportionately. This is accomplished by applying what we call an allocation fraction. In other words, if the supplier only has a hundred gallons on hand and the demand is 150 gallons, then he must apply an allocation fraction of two-thirds to all stations.

Within the narrow limits prescribed by the regulations, the allocation fractions have to be the same across the Nation. For example, an Exxon station in Maryland must receive virtually the same fraction of its 1972 base volume as an Exxon station in Idaho or Minnesota or anywhere else in the country.

This regulatory scheme results in uniformly equitable allocations among retail service stations of a single supplier but different suppliers have different allocation fractions, so that an Exxon service station in Maryland may receive a different percentage of its 1972 volume from a Shell service station across the street. And this is where problems arise because, if there are more Shell stations in one State and more Exxon stations in another State, then the States actually get different supplies and this is one of the things that we have been working hard to correct.

There are other reasons as well why there have been differences

between the proportions of the total supply going to each State other than the difference in the concentrations of the different gasoline dealers.

The agricultural priority, for example, means that States with significant agricultural requirements receive a relatively greater share of gasoline than those without. There have been different rates of growth in gasoline sales in different States and this has created not inequity but it has created differences between the States. Some States have been historically more dependent on imports which were reduced or cut off than other States.

Chairman HUMPHREY. At that point, I think it is well to note that our country is divided up into regional petroleum markets and the eastern, New England States depend almost entirely on imports.

Mr. SAWHILL. Yes, that is correct.

Chairman HUMPHREY. And we in the Midwest, the Upper Midwest, get Canadian and some domestic oil; and in the central part of the Midwest it's domestic, and out on the west coast they get some domestic oil and some imports.

Mr. SAWHILL. Imports again on the west coast, yes.

Chairman HUMPHREY. We really do not have an integrated system. It is kind of regionalized and you get these distorted patterns.

Mr. SAWHILL. There are five major important districts and each is like a nation unto itself in terms of its petroleum distribution. Also, the demand for gasoline has changed in different States. Some States have moved more aggressively on conservation than other States. I think the State of Minnesota, for example, has moved quite aggressively and has some legislation in the State legislature right now to create a department of energy which would devote considerable time and effort to conservation.

Finally, we find that in large metropolitan centers people seem to have changed their buying patterns; they are buying both in the metropolitan center and out in the suburban areas, so acute shortages have occurred in some of these very large metropolitan areas.

We have tried to take steps to minimize these differences among States. First, we have required equitable allocation among all dealers and tried to enforce this historical supplier-purchaser relationship, and that has meant that major suppliers may not withdraw from a region of the country which they served in 1972.

Now, one of the companies, Gulf Oil, is suing us to allow them to withdraw from certain areas, but we are vigorously fighting that suit because we think if a company served an area of the country in 1972 it just is not in accordance with our regulations or the intent of Congress for them to pull out of that area.

Chairman HUMPHREY. To what do you attribute this pattern of different companies' trying to pull out from different areas? We have seen this particularly in, of course, an area I am most familiar with. Out in our own part of the country, Sun Oil, for example, has stayed in now an extra year. I personally worked on that with the president of the company so they would keep those stations open, but certain companies are just pulling out completely even though they have been marketing in that area for years.

Mr. SAWHILL. Well, I think in some cases they just found that their

marketing operations were the least profitable of all their operations and the marginal marketing operations were the least profitable in the total marketing area, and so in trying to improve their profitability of their marketing they have closed down some of these smaller marginal stations and tried to consolidate back into the larger metropolitan stations.

Our regulations do provide for adjustment in the base-period volumes to reflect growth in sales since the base periods. These adjustments hopefully will correct supply imbalance among States that presently exist due to the fact that some States have grown at rates different from other States.

Chairman HUMPHREY. We had criticism about this matter on Tuesday.

Mr. SAWHILL. Yes.

Chairman HUMPHREY. The Petroleum Retailers and the American Automobile Association both brought instances to our attention where there had been substantial increase in population and automobile registration but no real increase in allotment.

Mr. SAWHILL. Well, we have a procedure to do this. You see, when we increase the supplies into an area, that means we are decreasing them somewhere else, so we have to have some kind of administrative procedure to assure the people we are taking the gasoline away from that we have in fact carefully reviewed and assessed the need for additional supplies somewhere else. That is the problem with running an allocation program. You only have so much and you have got to take it from some and give it to others and this process requires some kind of administrative procedure.

Now, perhaps the procedure we developed can be streamlined. We are looking at this now and we believe that we will be announcing within the next week or so a more streamlined procedure which will leave more of the job in the hands of the companies, permitting them to make these adjustments quickly, and our role will then be to go in and audit what the companies have done to assure that they have done it in accordance with the procedures that we have developed.

Chairman HUMPHREY. Will you have the manpower to regulate and police that properly?

Mr. SAWHILL. I think we are acquiring the manpower to do that. Obviously, there is a fine line here between wanting to have an administrative procedure that assures equity, yet wanting to get gasoline quickly into areas where we just know there are shortages because we can go out and see the gasoline lines. So admittedly, we have had to make some decisions based on our judgments. There are lines in Washington and New York and Boston and other parts of the country, so we put supplies into those parts of the country, and we believe it is appropriate for us to have done this. We have been able to eliminate the lines by doing so even without going through a very complex administrative procedure.

But I think we are building our staff now to the point where we do have the manpower to police compliance. We are relying on the IRS primarily for compliance, and they are building a group of 1,000 people in addition to the 300 agents we took over from the Cost of Living Council, which should provide us with sufficient manpower to enforce compliance.

As far as the monthly allocations are concerned, the average allocation across the Nation for the month of February was 84.2 percent but there was a wide range among states. For example, Maine had an allocation of 76 percent, Minnesota had an allocation fraction of 94 percent.

Chairman HUMPHREY. But we disputed those figures, you know. We found out that it really came down to about 86 point something, did it not? 86.9. But anyway, we got by.

Mr. SAWHILL. Well, when I was in Minnesota, earlier, or last month, I did not see any long lines like I saw in other parts of the country.

Chairman HUMPHREY. Well, we just live better out there. They are not quite as frantic, take it at a letter better pace.

Mr. SAWHILL. Well, maybe that is right. And, of course, we have got to have adequate supplies in places like Minnesota, because obviously we have got the spring planting season coming on and we have got to have inventories of gasoline available for spring planting.

Now, in the month of February, seeing these differences in allocation, we took several actions. On February 9 we directed the companies to begin making a redistribution of up to 2 percent away from those States that seem to have sufficient supplies and into those States where there were obviously shortages. Subsequent to this action, we sent 19 teams into the field and these teams worked closely with State officials, primarily educating them on our program and how to use our program, and also trying to assess the situation in these States.

Based on the reports of these teams, we ordered suppliers on February 19 to reduce their inventories in order to add 5 percent to the State set aside in 10 States and 2 percent in 10 additional States. We decided that the increased supplies should come from inventories because the situation required deliveries of supplies immediately.

On February 22 we made an additional allocation out of inventories. We ordered a further inventory drawdown of 239.75 million gallons to set aside in 27 States plus the District of Columbia. Altogether, then, we increased the supply of gasoline available to motorists in February by 352.7 million gallons, and I think we did the job of reducing the long lines at gasoline stations.

In order to speed up the process that adjusts the program to changes in patterns of demand—this so-called form 17 process, as I was saying earlier—we have instituted a procedure for expedited handling of the form which effects adjustments. Under this procedure the suppliers will report their customers' requirements directly to the FEO and automatic adjustments will be allowed immediately subject to a postaudit which I just described.

In March we have taken additional steps to reduce imbalance among the States. Essentially, we have ordered additional supplies to be provided from inventory according to a formula which takes into account differences between States. And basically, we looked at three different rules.

Rule 1 was, we looked at the amount of gasoline that the suppliers in each State reported would be available to that State in March.

In rule 2, we looked at 85 percent of what the State got in March 1972 and we adjusted that upwards for motor vehicle registration.

Chairman HUMPHREY. Now, these are just new rules that are going into effect?

Mr. SAWHILL. Right. Well, they were the rules we used to redistribute supplies among the States. We said, for a given State we will take the higher of three things: (1) What the company said they were going to give them; (2) 85 percent of the adjusted March 1972 level, and we adjusted it for motor vehicle growth; or (3) 113.6 percent of what they got in February. And the reason we used 113.6 was that 10.7 percent is the number or days that March has over February and the 2.9 percent reflects the average seasonal growth in consumption, so the 113 percent takes into account more days plus the growth.

Chairman HUMPHREY. Why is it, then, that some of the States say they are getting less per day than they got last March?

Mr. SAWHILL. Well, the reason is that in February they got an initial allocation and then we made these emergency allocations. If you add the initial allocation and emergency allocation together and assume they got all that in February, it is true that the per-day rate in some cases is less than March. However, our information—and our information is not very good, neither is the States'—is that these emergency allocations did not all go to the States in February. We made them at the end of the month. Some went in February, but a considerable amount of it went in March. I cannot tell you what the split was, honestly, and nobody can because the oil companies have never kept their records on a State basis. They have always kept them by region.

Chairman HUMPHREY. Yes.

Mr. SAWHILL. And they are beginning to change their systems to work by States but, as you know, computers do not change overnight, so they do not have good State information right now.

So our feeling is that because this emergency allocation went part in February and part in March, that in fact the States will get more per day in March than they got in February.

Now, if it turns out that there is a State where they begin experiencing acute shortages at the end of the month we will take another look at that State and make an additional emergency allocation if we need to. So even though it is true if you calculate it out mathematically and assume that all the emergency allotment went in in February, that the March allocation is less on a per-day basis, I do not think that really will be the case.

Chairman HUMPHREY. What you are saying, in other words, is that you have no real firm evidence that all these emergency allocations in February were used in that month.

Mr. SAWHILL. Right. As a matter of fact, most of the evidence we have suggests otherwise. For the month of April, we are going to be taking action again to redistribute supplies. In other words, the companies will make an initial allocation based on our regulations. We will look at this initial allocation and we will make a redistribution. In March we just made allocations out of inventories, additional allocations. We did not take it away from some States and give it to other States. And we are prepared to begin reducing those States which clearly have at least sufficient supplies and redistribute to States which clearly are in serious shortage,

States like West Virginia and Florida and New Jersey and Connecticut and others.

Chairman HUMPHREY. I hear that Georgia, for example, has an abundance of gasoline. Is that true? Or North Carolina?

Mr. SAWHILL. No. I think that is not true in the case of Georgia. Again, it is not only an interstate problem but it is also an intrastate problem. You find in a State like Georgia that, in the metropolitan areas, like Atlanta for example, they have lines and shortages. In some of the outlying areas they have had adequate supplies. Some of the reasons why the outlying areas have had adequate supplies are that we have made every effort, recognizing the 60 million new acres of agricultural production and the other things you have pointed out, to provide fuel to these rural areas and to give farmers as nearly as we could what the regulations say they are entitled to—that is 100 percent of their needs. And so I think we are finding that gasoline is moving out into these rural areas to serve the farm communities.

Chairman HUMPHREY. There has been some misunderstanding, I would say, on the part of some people as to whether it was 100 percent of the 1972 base or whether it was really 100 percent of current needs. What do your regulations say?

Mr. SAWHILL. Farmers receive 100 percent of current needs and are treated differently from any other group. Other groups get 100 percent of their current needs subject to an allocation fraction. Farmers get 100 percent of their current needs, period. In other words, they get all they want.

Now, the larger farmers who buy in bulk do not have any problem obtaining these supplies. The smaller farmers who buy at retail stations may have had some problems. What we are doing now, we met with our agricultural advisory committee earlier this week, and we worked out a procedure whereby these smaller farmers would certify to their suppliers that they were farmers and they had a certain need—a thousand gallons or 10,000 gallons or whatever—and then this certification process would go right up the distribution chain so that the refiners would be delivering sufficient supplies to take care of the farmers in their areas.

Chairman HUMPHREY. Do they have to fill out that form 17 every time they apply?

Mr. SAWHILL. Only once. It is only once a year.

Chairman HUMPHREY. Once a year?

Mr. SAWHILL. Yes. Not on a monthly basis. At least, it is not our intent to have it on a monthly basis.

Chairman HUMPHREY. Are you sure the distributors will have the fuel? I mean, it is one thing to say you are going to get 100 percent of your needs, but what about that distributor up there in Sauk Centre that has just been knocked out of business? For 27 years he was distributor for a certain oil company and they just decided to terminate his contract. He served all those farmers.

Mr. SAWHILL. If that distributor has gone out of business then we would try to move supplies in from some other part of the country. That is the intent. And we are trying hard to move supplies on that basis.

Chairman HUMPHREY. I just flag this to you because one of the problems we are seeing is that in the rural areas, for example, frequently the distributor is an independent.

Mr. SAWHILL. Yes.

Chairman HUMPHREY. For example, some months ago I had a number of cases in southern Minnesota where a distributor had his franchise canceled out completely, and some 160 farms depended on this one distributor. That was at one place down near Austin. I think it was Champlin Oil Co. His supplies were dried up completely.

I was up at Sauk Centre and saw exactly the same thing with a man that was getting his gas, I think, from Shell; as of a certain date, it was January of this year, he was through. For 27 years he had been the major distributor up there.

My point is that the remedial action, the redistribution does not take place that quickly.

Mr. SAWHILL. No.

Chairman HUMPHREY. And I would hope in the compliance section of your agency—and by the way, I know it is difficult to get this done and I am not trying to jump on anybody—but in the compliance section, as these cases come in, I hope that there would be a real effort, an extra effort to get other distributors. Of course—

Mr. SAWHILL. Yes. Well, we have to do that. I mean, we have got to serve rural America. I think that our No. 1 priority is to provide sufficient fuel that will be consistent, as you pointed out in your statement, with the demands we are making on our farmers. Our whole strategy has been to provide maximum supplies to agriculture and provide maximum supplies to industry and that is why we have the gas lines. We have cut down on gasoline. We admit that. And I think if we had to sacrifice somewhere, people would rather wait in gas lines and have America's farming production capacity at its maximum level.

Chairman HUMPHREY. In your agricultural advisory committee, do you have sort of a working operation with them, and is it regionally representative?

Mr. SAWHILL. I believe it was fairly representative regionally. I do not remember the list. But we have all the major associations represented like the Grange and the other important agricultural associations. And we certainly heard from them about some of the very problems that you are describing, and it was because of our meeting with them that we established a procedure to insure that the smaller farmer was taken care of.

Chairman HUMPHREY. I might say that in most of these areas the possibility of cheating on this is limited, because generally the distributor knows who the farmer is.

Mr. SAWHILL. Yes.

Chairman HUMPHREY. It is not as if you are dealing in the no man's land of an urban area where you do not know your neighbor. Everybody knows each other and the different dealers out there know who is a farmer and who is not. There will be a few—

Mr. SAWHILL. Yes.

Chairman HUMPHREY [continuing]. That you have to watch.

Mr. SAWHILL. One of the things they suggested was that we use the Extension Service of the Department of Agriculture—

Chairman HUMPHREY. Right.

Mr. SAWHILL [continuing]. To certify these farmers. And I think that we are probably going to do that.

There are a couple of other problems I would like to call your attention to that, of course, you already are aware of. One is that the continuing strike of the 26,000 miners in southern West Virginia is beginning to have a serious impact on the steel industry. This has led to the phased shutdown of coke plant operations in at least two steel companies and could lead to layoffs of 30,000 steelworkers at United States Steel alone by March 17.

The striking coal miners have been protesting West Virginia's gas shortage and the State's gasoline distribution program and we have been meeting and working with the State. We understand now that there is a sufficient supply of fuel in West Virginia and that the miners may be going back to work and some already have gone back to work.

Obviously, we are concerned with the effects of this strike and we have tried to do everything we can to put sufficient supplies of fuel there so that these very important people in our economy can get to work and can get the job done that needs to be done.

A second problem we have is with migrant workers which, of course, are very important in agriculture. We know that they will need to be assured of gasoline supplies to reach their work sites and assurance that more will be available as they move from one to another.

Chairman HUMPHREY. Now, is that being worked out, Mr. Sawhill? That is a point we brought up the other day here.

Mr. SAWHILL. Yes. We have established in the FEO a special impact office, partly in response to the urging of Congress, to look at groups like migratory workers and low-income groups and other disadvantaged groups that normally would not receive the attention of something like the FEO. That office is working with broad groups in society, and I believe we are coming to a solution. At the present time, we are looking at two possibilities, and I think that I can assure you that we will have a solution for these problems because we recognize that they are just vital to maintaining the productive capability of our agricultural sector.

Chairman HUMPHREY. Of course, they move from one place to another, these migratory workers.

Mr. SAWHILL. Yes.

Chairman HUMPHREY. The automobile is vital to their economic livelihood. They have got to have the gas.

Mr. SAWHILL. Yes.

Chairman HUMPHREY. I have asked one of our staff people to kind of keep in touch with your Office to make sure this is followed up on, followed through, because we are going to be receiving some complaints. I am sure we already have.

Mr. SAWHILL. Yes. Well, we will be glad to be responsive to that because it is something we have got to be concerned with.

A third area that I wanted to discuss briefly, because of your concern over problems of consumers and the effects of the energy problems on them, is that we have established an Office of Consumer Affairs reporting directly to Bill Simon and me in the Federal Energy Office. As you know, we have a Consumer Advisory Committee headed up by Lee White. We met with him yesterday. We told him about this new office and its functions, and in a sense it is going to be a vehicle to make sure we consider consumers' interests in our decisionmaking process. And I think that this will be a very effective way of making sure that we are not only—that we are responsive to consumers as well as all the other groups that we have to be responsive to.

And finally, I wanted to mention, since I saw in the report that was prepared by the committee some comments on car pooling, that starting in December we initiated an intense carpooling effort to prepare materials for and run training sessions within our 10 Federal regional offices. We put our complete support behind this effort. Funding for car-pool projects, including demonstration projects, is available under the car-pool section of the Emergency Highway Energy Conservation Act. We have encouraged local and State initiatives and done everything we could to encourage car pooling because I think that is one of the most effective forms of conservation.

Again, your own State has done quite a bit in this regard. They have adopted a system where they send out with the telephone bills a little slip asking those interested in car pooling to provide certain details about their needs, and then they try to match them up.

Chairman HUMPHREY. Have you budgeted that item and others so that you have it adequately staffed or is it something that is a hit-and-miss operation? I do not say that disparagingly.

Mr. SAWHILL. I think probably at this point it has got some hit-and-miss characteristics but I think it is something we want to make sure that we build, too.

Chairman HUMPHREY. It seems to me that that is a very important part of our conservation efforts.

Mr. SAWHILL. Yes, I think it is, too.

Chairman HUMPHREY. And it should be, I think, structured into the agency.

Mr. SAWHILL. Well, that really completes the summarized statement.

Chairman HUMPHREY. Thank you.

[The prepared statement of Mr. Sawhill follows:]

PREPARED STATEMENT OF HON. JOHN C. SAWHILL

Mr. Chairman and members of the subcommittee, I am pleased to have the opportunity to appear before you this morning to discuss the mandatory allocation program. My purpose today is to outline the principles and some of the procedures which are central to the allocation program we implemented January 15, 1974, and to comment on our progress to date and our prospects for the future.

OVERVIEW

The primary goal of the allocation program is equity. The program was created to manage the shortage and to distribute it fairly across the broad

spectrum of petroleum users in this country. The objective is to have each citizen suffer no more inconvenience than is absolutely necessary. Each week we move closer to this goal as suppliers, state and local government officials and our own employees become more familiar with the program and its administrative procedures.

A second underlying principle is to manage the shortage in a way which minimizes unemployment. The program is designed so that when shortages occur, they will not cut the muscle of the American economy. A family with its thermostat lowered is better off than one with its breadwinner idle. We were gratified to note that the national rate of unemployment did not increase last month, and that in spite of what the prophets of doom were predicting last fall, there are more people employed today than there were prior to the embargo.

Our organization is based on the principle of decentralized responsibility. Pursuant to this principle, we have placed heavy reliance on our regional offices and upon extensive participation by state governments. We believe it is very important that the problem created by the oil shortage be handled by the people who are closest to the situation, and who are best able to evaluate the facts and devise a solution.

Our regional offices are rapidly improving their ability to deal with the problem. A larger and more knowledgeable staff is now at work in the field even though many are not permanent employees. Similarly, the state government energy offices, with whom we have been working very closely, are now functioning well under the very considerable pressures with which they must deal. On the enforcement side, the IRS has willingly and effectively assumed its responsibilities.

Even if we were beginning this program as a large and experienced Federal agency, we would expect many difficulties. But we are not. On December 4th we began the FEO with 200 inherited employees. Three months later we have 2300 employees. We are formulating, applying, and adjusting policies while at the same time attempting to build the organizational capacity to manage the situation. Congress has not yet passed the legislation creating our organization, and without a statutory base we have had to depend almost entirely on temporarily detailed personnel from other government agencies. This situation has resulted in some uncertainty and instability within the organization. In addition, the lack of a permanent authority has made the recruiting of top flight talent extremely difficult.

Yet on balance, even without the legislation we so desperately need to establish the agency on a more permanent basis, we are satisfied that our brief experience indicates that we are on the right track. We remain convinced that our operating principles are sound and that our goals are achievable.

I am confident that our generally good experience in the start-up period provides the basis for steady and continued improvement in all aspects of the program.

GASOLINE ALLOCATION PROGRAM

Each of the fuels programs which we administer is of major importance to the American consumer. The effects of some are subtle, indirect, and long range. Others are more immediately seen and felt. The shortage which has most visibly affected the consumer is that of gasoline. For that reason, I would like to discuss the gasoline allocation program in some detail.

Before addressing the events of the last month concerning gasoline, let me review the way in which the program is intended to work.

The Emergency Petroleum Allocation Act of 1973 requires the equitable distribution of available refined petroleum products, including gasoline, among all regions of the Nation, sectors of the petroleum industry, and among all end users. Section 4(c)(1) of the Act requires that the mandatory allocation program shall be so structured as to result in the allocation of gasoline to each independent marketer (and to each small and independent refiner who purchases gasoline) in an amount not less than the amount sold or otherwise supplied to such marketer (or refiner) during the corresponding period of 1972.

The regulations issued by the Federal Energy Office provide for allocations to certain classes of end users and to all wholesale purchasers of gasoline (typically retail service stations) on the basis of their 1972 base period volumes. Allocations to certain classes of end users are specified at 100% of

current requirements. These include agriculture, emergency public services, and several other priority categories.

Under the regulations each supplier of gasoline (typically a refiner) must distribute available supplies on a *pro rata* basis to each retail service station which it served during 1972. Stations without a historical supplier may be assigned a supplier and a base period volume under the "new customer" provisions of the regulations. If a supplier does not have a sufficient supply to meet the base period volumes for all its retail service stations, the regulations require him to reduce his deliveries to all stations proportionately. This is accomplished by applying an allocation fraction.

An allocation fraction for each supplier is set by dividing total available supplies of gasoline by total requirements. Requirements for each supplier are the sum of the base period volumes of its wholesale purchasers. The allocation fraction is applied to each wholesale purchaser's base period volume to calculate the amount of fuel each receives. Within narrow limits specified in the regulations (5%), the allocation fraction for each supplier of gasoline must be uniform throughout the United States. For example, an Exxon service station in Maryland must receive virtually the same percentage of his 1972 base period volume as an Exxon station in Idaho.

Although the regulatory scheme results in uniformly equitable allocations among retail service stations of a single supplier, different suppliers will have different allocation fractions, reflecting the fact that each supplier has different levels of total supplies compares to the requirements of his purchasers. Accordingly, an Exxon service station in Maryland may receive a different percentage of his 1972 volume than a Shell service station across the street.

Despite the equitable allocation of gasoline among all retail gasoline stations throughout the Nation, supply imbalances may occur among and within states for the following reasons:

Because of the differences in allocation fractions among suppliers, the average allocation fraction in effect in each state will naturally vary. Each state will have a different mix of suppliers serving the service stations in that state.

The agricultural priority under the Act has been implemented in the regulations by allowing agricultural users to certify 100% of current requirements rather than base period volumes. This means that states with significant agricultural requirements may receive relatively greater supplies of gasoline than other states.

There have been different rates of growth in gasoline sales since the base period in different states. This difference reflects both normal growth of an area and unusual growth associated with areas where the closing of some stations during 1973 resulted in the remaining stations having more customers than they did in 1972.

Some states have been historically more dependent upon imports, which were reduced or cut off, than have other states.

The manner in which demand for gasoline has changed in a state since the base period, and in response to the energy crisis itself, will differ from state to state. For example, conservation measures such as reducing speed limits and encouraging reductions in pleasure driving may reduce demand for gasoline less in urban areas where daily commuting is a major factor in gasoline consumption than in other parts of the country.

The existing shortages tend to be felt more severely among gas stations located near population centers because it appears people are tending to fill their tanks as close to where they live or work as possible. Fewer fill-ups are occurring in outlying areas where, in normal times, pleasure driving was taking people farther away from their homes and jobs.

The regulations issued by the Federal Energy Office are designed to minimize these differences among states:

Equitable allocation among all dealers and enforcement of the historical supplier-purchaser relationships means that major suppliers may not withdraw from a region of the country which they served in 1972 (without the permission of the Federal Energy Office) and such suppliers may not discriminate in allocations among their stations in different regions.

The regulations provide for adjustments to increase base period volumes of retail service stations to reflect growth in sales since the base period. These adjustments should correct supply imbalances among states that may presently exist due to a nonuniform pattern of growth or a large number of station closings since the base period. Adjustments for increased growth require the

processing of a form for each station requesting an adjustment by either the supplier or the Federal Energy Office. This administrative procedure is necessary to insure equity. Due to the limited time available between the issuance of the regulations and the start of the February 1974 allocation period, adjustments for growth were, for the most part, not reflected in allocation fractions for the month of February. The March allocation fractions are much better, but we are still short of perfection. The Federal Energy Office is giving the processing of these adjustments the highest priority and will be implementing an expedited system to reduce drastically the time necessary to effect these adjustments. These adjustments should tend to reduce even further the apparent supply imbalances among states.

As noted above, the Federal Energy Office is requiring suppliers who withdrew from a region to continue to provide allocations to their base period purchasers in those regions. Under Section 211.14(d) of the regulations, such suppliers may apply to the Federal Energy Office for reassignment of their retail service stations in a region from which they have substantially withdrawn. In making reassignments under Section 211.14(d), the Federal Energy Office will attempt to further equalize each supplier's allocation fraction.

Provision for emergencies and intrastate supply imbalances is made under the regulations through the state set-aside programs. Currently 3% of the fuel otherwise available in a state must be "set-aside" from the working-stocks of the suppliers who serve that state for emergency or hardship allocations or to alleviate intrastate supply imbalances. The state, typically through the Governor's office, exercises complete discretion over fuels in the set-aside program.

MONTHLY ALLOCATIONS

Despite the self-executing provisions of the regulations described above, which are designed to assure equitable allocations of gasoline among all sectors of the petroleum industry, the Federal Energy Office maintains continuous surveillance for significant supply imbalances among states. The Federal Energy Office has authority to redirect supplies to correct severe imbalances under Section 211.14 of the regulations. Accordingly, as soon as the relevant data was available, the Federal Energy Office calculated allocation fractions for the month of February for each of the 50 states and the District of Columbia. The average gasoline allocation fraction for the Nation was 84.2%. Most states had gasoline allocation fractions within plus or minus 5% of this figure. A few states fell outside that range. For example, Maine had an allocation fraction of 76%. Minnesota had an allocation fraction of 93.8%.

Differences in allocation fractions *per se* do not necessarily indicate the extent of any supply imbalance. It was a parent at this time, however, from the existing statistics and from reports from various states, that there were certain regional supply imbalances in the availability of motor gasoline. Accordingly, on February 9, 1974, based on the statistical information available at the time, the Administrator of the Federal Energy Office directed all suppliers to proceed under Section 211.14(b) of the regulations to increase their allocation fractions to purchasers in twelve states and the District of Columbia and to reduce their allocation fractions to purchasers in ten other states. Any redistribution resulting from the February 9, 1974 directive was not to exceed an amount that would change a supplier's allocation fraction in any state by more than 2%.

Subsequent to this action it became clear that the shortages were more widespread and severe than we first anticipated. Long lines formed at gas stations causing traffic jams and long waits for gasoline. This caused tardiness and absenteeism by workers, confusion and irritation among motorists, and in a few cases resulted in violence.

We then took two additional steps. We sent into the field 19 teams to review at first hand the situation in various states, to work with state officials on program administration, and to verify certain data we had received in Washington. The teams talked with the Governors, industry representatives and other state and local officials to obtain a clearer understanding of the unique problems within each state. Simultaneously, we re-estimated the changes which had occurred during the past two years by using growth in automobile registrations.

This re-examination led to our order of February 19 which directed suppliers to reduce their inventories in order to add 5% to the state set-aside in

10 states, and 2% to those of 10 additional states. We decided that the increased supplies should come from existing inventories both because 1974 gasoline inventories are above 1973 levels and because the situation required the delivery of supplies immediately. Inventories provided the most readily available source.

On February 22, in order to cope with the extreme shortages which continued to be felt in many states, we ordered a further inventory drawdown which added a total of 239.75 million gallons to the set-asides in 27 states plus the District of Columbia.

Altogether, then, we increased the supply of gasoline available to motorists in February by 352.7 million gallons. These increases were necessary to relieve acute shortages in states experiencing unusual growth, a large number of station closings and changes in buying patterns.

We expect that emergency allocations, such as those provided in February, may continue to be needed in subsequent months. However, as the change-adjustment process which we have built into the system begins to take hold, and as supplies, state officials, and our own employees become more familiar with the system, the need for emergency allocations will be reduced.

In order to speed up the process which adjusts the program for change, we have instituted a procedure for expedited handling of the form which effects adjustments. Under this procedure, the suppliers will report their customer's requirements directly to the FEO, and automatic adjustments will be allowed to be made immediately subject to post audit by the FEO. This new procedure will cut through some of the red tape which existed previously. We have appointed a high level project manager to see to it that the process works as smoothly as possible. We have also called in the suppliers to make sure that they continue to give this effort top priority.

For the month of March we have taken additional steps to reduce imbalances among the states. Essentially, we have ordered additional supplies to be provided from inventory according to a formula which takes into account differences between the states. This was done in the following manner:

The Federal Energy Office used three allocation rules to determine the amount of gasoline that was to be allocated to each State and the District of Columbia during March, 1974. Under the rules, each is to receive whichever is greater as computed by:

Rule 1.—The amount of gasoline that the suppliers in each State reported would be available to the State in March, 1974; or

Rule 2.—At least 85% of the gasoline sold in the State in March, 1972, adjusted to reflect vehicle registration growth; or

Rule 3.—113.6% of the amount of gasoline allocated initially to the State in February, 1974, except that no State could receive more than 100% of the March, 1972, amount adjusted for vehicle registration growth. The 113.6 percent is calculated as follows:

100% of initial February, 1974 supplies, plus 10.7% to reflect the three additional days in March over February, plus 2.9% which reflects the average normal seasonal increase in consumption.

Attached to this statement are two tables showing: Attachment A: Computations for March, 1974; Attachment B: Comparison of allocation figures for February and March, 1974.

The effect of this FEO action, which raises the National allocation fraction from the February figure of .843 to a figure for March of .896, is to insure that every state will receive a greater supply of gasoline in March than initially allocated for February.

It has been said that, although the total March gallonage for each state will exceed that of February, the daily average in some states may be less. This is true only if it is assumed that all of the February 23 increase was delivered during February. The fact is, however, that suppliers were not able to get all of the February 23 increase to their customers by the end of the month. Although final data are not available yet, we know from informal contact with the suppliers that this was the case. A substantial portion of the February gallonage will, therefore, be included as part of the March supply. Consequently, no matter how the March supply is viewed, whether in terms of total gallonage or in terms of daily average, we estimate that it will exceed the amounts actually delivered during February.

For the month of April, the Federal Energy Office is planning to take action that will produce a distribution of gasoline among the states such that no one state shall have an allocation fraction which is five percent greater or less than any other state. This action will require some redistribution among states—i.e. taking supplies from states with adequate supplies and allocating them to states experiencing shortages.

We feel, therefore, that we have made progress in implementing the gasoline program. We should achieve greater equity in the months ahead as the distribution system adjusts to the program requirements and people become more familiar with the program operation. We will, however, remain flexible and where we find that changes are necessary, we will not hesitate to implement them.

SIGNIFICANT PRESENT PROBLEMS

Before turning to future considerations, I would like to comment briefly on two current problems of particular interest: the miners in West Virginia and the migrant laborers.

Coal Miners

The continuing strike of an estimated 26,000 miners in southern West Virginia is beginning to have serious impact on the steel industry. The strike has led to the phased shut-down of coke plant operations in at least two steel companies. The strike threatens to lead to layoffs of 30,000 steelworkers at U.S. Steel alone by March 17.

The striking coal miners have been protesting West Virginia's gasoline shortage and the state's gasoline distribution program. With respect to the first problem, FEO met 10 days ago with Arnold Miller, President of the United Mine Workers and Walter Wallace, President of the Bituminous Coal Operators' Association. As a result of these meetings, more gasoline was directed into the southern West Virginia area. Amendments were made by Governor Moore to the State's distribution program providing for more frequent refueling by anyone driving more than 250 miles a week in the course of getting to and from work. Miners remained on strike for the most part despite these amendments. They demanded all the gasoline they needed to get back and forth to work.

Governor Moore of West Virginia yesterday morning, following conversation with the Federal Energy Office and the Federal Mediation and Conciliation Service suspended for 30 days the quarter of a tank rule which was a significant issue raised by the miners. It is believed that there is a sufficient supply of fuel at this point in West Virginia, and I understand that the miners will be going, if they have not already gone, back to work.

FEO is concerned over the effects that this strike could have on our Nation, including the far-reaching impact it could have on the Nation's balance of payments, as a large percentage of the Nation's annual coal exports are extracted from southern West Virginia.

Migrant Workers

Our office is very much concerned with the anticipated problems of migrant farm workers traveling long distances to harvest the crops as they do each spring. We know they will need to be assured of gasoline supplies to reach their worksites and an assurance that more will be available en route.

Without migratory labor, it is possible that nearly 50% of the national asparagus and broccoli crops could be lost along with the following losses for other crops: lettuce, 42%; cantaloupe, 36%; watermelon, 31%; green beans and apples, 29%; processed corn, 16%. The projected loss in overall national agricultural products could be as high as \$500 million without migrant workers.

In light of the potential impact of a gasoline shortage on migrant labor and crops, the Special Impact Office of the FEO, together with representatives of the Departments of Labor and Health, Education and Welfare, has explored the alternatives available in dealing with the immediate situation.

We are considering giving migrant labor status as either a priority user of gasoline, in the same category as ambulances and sanitation services, or as an integral aspect of agricultural production. Both priority and agricultural users are allowed 100% of their gasoline needs. However, assigning special

status to migrant labor under either category requires regulatory changes or exceptions. The feasibility of such alterations is now being explored in the Office of the General Counsel.

At present, conflicting evidence exists as to the gravity of the effect of the gasoline shortage on the migrant labor force. Availability has increased decidedly over recent weeks, yet future seasonal changes are as yet undetermined.

In any case, the FEO will work closely with other Federal and local agencies in supplying the migrant with up to date information on gasoline accessibility along main travel routes. In addition, telephone hotline systems are proposed and efforts are being made to provide knowledgeable personnel at the local level to help expedite emergency needs. An overall strategy for dealing with the problems of migrant labor should be completed within a week, with a target date for full implementation of April 1.

Consumer Affairs

FEO has long been concerned with the problems of consumers and the effect of the energy problems on them. Consequently, this week the Administrator established an Office of Consumer Affairs, reporting directly to him and the Deputy Administrator. The primary duties of the office will be to represent the consumer in development of agency policy, to monitor complaints regarding humanitarian and due process considerations, and to provide technical assistance on substantive matters to the Consumer Advisory Committee.

The office will strive to establish a working liaison with all agencies to insure that consumer interests are given a fair hearing, that consumers are given accurate information in order to assist FEO in decision-making, and that FEO has an accurate evaluation of the trade-offs consumers are willing to make both in the short and long run.

Carpooling

Starting in December, the Department of Transportation initiated an intense carpooling effort to prepare materials for, and run training sessions within the ten Federal Regional Offices. The Federal Energy Office has put its complete support behind this effort. Funding for carpool projects, including demonstration projects, is available under the carpool section of the Emergency Highway Energy Conservation Act. Local and State initiatives are encouraged as the primary mechanisms for funding and implementing these projects. The Federal Energy Office has supported this program respecting the Federal government's participation in this project and, under Phase II of its Federal Energy Conservation Program, a mandatory requirement is being placed on all agencies of the Federal government to allow at least 90% of available parking spaces to carpools exclusively.

OVERLOOK AND PROJECTIONS

We believe that given the additional authorities which we have requested from the Congress, we will be able to cope with most foreseeable problems with our current allocation program without going to the extreme of gasoline rationing.

The experience of recent months permits amendments in the assumptions underlying estimates of petroleum product shortages. The demand for petroleum products has been reduced due to successful allocation policies. This has produced higher inventories, particularly in the middle distillates. Gasoline inventories remain at a satisfactory level. According to the American Petroleum Institute, inventories as of March 1 stood at 226,458,000 barrels. This is up some 5 million barrels from February 22, 1974, and is 10 million barrels higher than inventories of a year ago at this time. These improved inventory positions permit additional flexibility for meeting the shortfalls of the coming months.

In addition, import levels should not suffer the seasonal drop originally forecasted for the second and third quarter. The changing world market conditions should permit the United States to maintain or improve our current levels of imports.

The Federal Energy Office has developed several new scenarios which forecast petroleum supply and demand through the remainder of 1974. These

scenarios deal with a full embargo and the lifting of the embargo under a number of different assumptions.

The supply of petroleum products for the last four weeks has been close to the forecasted levels with a fully effective embargo. Domestic crude production has averaged 100 thousand barrels per day above the full embargo estimate. In addition, conservation, allocations, and warmer weather have kept consumption below the forecasted levels producing higher inventories, primarily in distillate fuel oils.

Continued improvement in world oil production levels should produce increased imports during the next two quarters, particularly in residual fuel oil. Our original import estimates anticipated a seasonal reduction during the second and third quarters of 1974, but we are now expecting to maintain the current import levels with the embargo in effect.

The combination of the higher imports and higher inventory levels produces a new forecast with smaller shortages and different distribution by product than previously estimated. The difference between supply and unconstrained demand drops from the previous estimate of 3.1 million barrels per day to 2.2 million barrels per day in the second quarter. On a percentage basis, the shortage is reduced from 17% to about 12%.

This full embargo shortfall represents the difference between supply and the estimate of demand unadjusted for price changes or conservation effects. The distribution by-product is quite varied. For example, the large stocks of distillate have eliminated the possibility of an early shortage of heating oil and diesel fuels but continued conservation of these products will be necessary to permit the flexibility for blending to meet the demands for residual oils and kerosene based jet fuels. Both of these products will have shortages in the range of 13-20% if conservation and allocation actions are not continued.

The maximum shortage of gasoline is expected to be in the range of 10-11% over the spring and summer months. We are now at the time for the normal seasonal reduction of gasoline inventories and these inventories will be used to meet the rising demand as well as the requirement for special allocations, as appropriate.

The rise in prices will reduce the demand for petroleum products. The quantification of this effect over the short run is complicated by the lack of a history including price changes of the current magnitudes. In addition, price effects reinforce major conservation efforts but the savings are not additive. However, some estimates of price responsiveness have been made, and an indication of the magnitude of short-term demand reductions can be obtained by applying these elasticity estimates and price changes. Estimates of the price or conservation effects alter the product shortfall distribution, but the total shortage continues in the neighborhood of 8%.

Although the situation has improved, this shortage indicates that a vigorous program of energy conservation must be supplemented by the continuation of allocations and a close monitoring of the supply and inventory situation. The shortage is being managed and we can avoid drastic reductions in output or dislocations in the economy if these efforts are maintained.

If the embargo is lifted and imports return to pre-embargo levels, the situation will be much improved. After a period of transition, the price effects could combine with continued conservation efforts to produce a situation that would not require a large allocation program. I must emphasize that this depends upon a substantial increase in imports and we have no guarantee that this will occur. Even with the removal of the oil embargo and a reduction in demand caused by price rises, the balance between supply and demand will depend largely on production levels and effective mandatory conservation efforts. If you assume something like the September, 1973 production, the shortages should show a sign of being reduced. The lag time of 45 to 60 days to receive embargoed supplies, of course, is another factor in this estimate. Therefore, we must be selective during the period of transition and ensure that the removal of allocation controls is accompanied by a restoration of more normal supply conditions.

The detailed analysis of our new supply and demand estimates for several cases with and without the embargo, will be published by the Federal Energy Office within one week and I will provide it for the record at that time.

ATTACHMENT A

[Units are in millions of gallons]

State	Allocation rule No. 2				Allocation rule No. 3, 113.6 percent of February 1974 supplies		Which rule was used	Total supply for March 1974 after FEO action	Modified allocation fraction (column g divided by column c)
	Allocation rule No. 1, March supply schedule before FEO action	March 1972 consumption	March 1972 consumption adjustment for motor vehicle growth	85 percent of March 1972 adjustment for motor vehicle growth	(e)	(f)			
	(a)	(b)	(c)	(d)	(g)	(h)			
Alabama	126.7	148.9	161.9	137.6	122.5	2	137.6	0.850	
Alaska	9.5	8.5	9.1	7.7	9.5	1,3	9.5	1.046	
Arkansas	84.5	91.6	95.1	80.8	91.9	3	91.9	.967	
Arizona	81.2	95.9	108.6	92.3	83.7	2	92.3	.850	
California	733.3	845.0	917.2	779.7	772.7	2	779.7	.850	
Colorado	106.1	101.9	119.8	93.3	101.8	3	109.9	.917	
Connecticut	107.2	107.8	114.9	97.7	99.6	1	107.2	.933	
District of Columbia	19.0	20.1	20.2	17.2	19.8	3	19.8	.979	
Delaware	18.8	23.1	23.6	20.1	23.3	3	23.3	.987	
Florida	318.1	349.1	412.5	350.6	334.9	2	350.6	.850	
Georgia	218.0	246.1	280.6	238.5	197.4	2	238.5	.850	
Hawaii	19.6	22.3	24.7	21.0	20.8	2	21.0	.850	
Iowa	108.3	129.2	133.4	113.4	118.4	3	118.4	.888	
Idaho	37.0	38.3	45.1	48.4	35.0	2	38.4	.850	
Illinois	343.6	424.8	457.8	389.2	369.1	2	389.2	.850	
Indiana	193.7	221.4	227.4	193.3	192.2	1	193.7	.852	
Kansas	118.6	105.6	116.6	99.1	122.8	1	118.6	1.017	
Kentucky	114.3	131.9	147.9	125.7	118.1	2	125.7	.850	
Louisiana	164.1	145.3	161.6	137.4	185.3	1	164.1	1.015	
Massachusetts	182.8	187.1	203.8	173.2	187.6	3	187.6	.920	
Maryland	136.0	146.9	167.2	142.1	127.7	2	142.1	.850	

Maine.....	37.4	38.8	42.8	36.4	39.3	39.3	.918
Michigan.....	332.1	355.1	391.1	332.4	335.7	335.7	.858
Minnesota.....	169.2	154.0	165.8	140.9	191.9	169.2	1.020
Missouri.....	166.0	213.5	232.5	197.7	177.4	197.7	.850
Mississippi.....	78.7	92.5	103.3	87.8	90.9	90.9	.880
Montana.....	26.8	31.4	38.2	32.5	31.1	32.5	.850
Nebraska.....	51.6	70.6	78.3	66.5	57.7	66.5	.850
North Carolina.....	199.4	165.6	189.5	161.1	191.4	199.4	1.052
North Dakota.....	24.0	26.5	28.8	24.5	27.8	27.8	.967
New Hampshire.....	21.3	28.8	34.5	29.3	20.3	29.3	.850
New Jersey.....	234.8	271.8	289.8	246.4	241.4	246.4	.850
New Mexico.....	48.8	52.7	59.5	50.6	54.9	54.9	.922
Nevada.....	27.3	28.5	32.2	27.4	22.4	27.4	.850
New York.....	417.8	499.9	519.2	441.3	468.5	468.5	.902
Ohio.....	348.3	392.9	409.3	347.9	363.3	363.3	.888
Oklahoma.....	133.1	122.2	134.1	114.0	139.0	134.1	1.000
Oregon.....	78.0	93.7	102.5	87.2	76.9	87.2	.850
Pennsylvania.....	353.9	387.7	417.7	355.0	355.8	355.8	.852
Rhode Island.....	28.1	30.4	33.1	28.1	30.9	30.9	.933
South Carolina.....	103.7	113.4	124.5	105.9	103.3	105.9	.850
South Dakota.....	29.1	32.1	35.0	29.8	30.2	30.2	.864
Tennessee.....	175.5	167.7	188.5	160.2	173.4	175.5	.931
Texas.....	657.8	574.2	630.2	535.7	611.3	657.8	1.044
Utah.....	44.1	45.1	50.3	42.8	35.2	44.1	.876
Virginia.....	174.0	198.3	227.4	193.2	167.4	193.2	.850
Vermont.....	18.4	18.6	21.3	18.1	14.7	18.4	.862
Washington.....	130.0	126.8	136.2	115.8	127.7	130.0	.955
Wisconsin.....	143.4	160.4	175.5	149.2	157.1	157.1	.895
West Virginia.....	48.9	67.2	73.2	62.2	45.2	62.2	.850
Wyoming.....	21.7	17.6	19.6	16.7	23.9	21.7	1.108
Total.....	7,564	8,203	8,969	7,623.6	7,748	8,033	.896

¹ See exception to allocation rule No. 3.

Note 1.—The total supply figure for March 1974 (col. (g)) will also appear in columns (a), (d), or (e) depending on which allocation rule was used.

Note 2.—The amount of inventory drawdown can be calculated by subtracting column (a) from column (g) (8,033 million gallons minus 7,564 million gallons equals 469 million gallons or 11.2 million barrels.

ATTACHMENT B
COMPARISON OF FEBRUARY AND MARCH GASOLINE SUPPLY SITUATION

[In millions of gallons]

State	Initial February 1974 supply	February 19, and February 23, 1974, emergency allocations	Final February 1974 supply	Final March supply	Final February- March increase
Alabama.....	107.3	10.7	118.0	137.6	19.6
Alaska.....	8.4	0	8.4	9.5	1.1
Arkansas.....	80.9	0	80.9	91.9	11.0
Arizona.....	73.7	7.4	81.1	92.3	11.2
California.....	680.2	0	680.2	779.7	99.5
Colorado.....	96.7	9.7	106.4	109.9	3.5
Connecticut.....	87.7	0	87.7	128.2	40.5
District of Columbia.....	17.4	1.7	19.1	19.8	.7
Delaware.....	20.5	2.0	22.5	23.3	.8
Florida.....	294.8	29.5	324.3	350.6	26.3
Georgia.....	173.8	8.7	182.5	238.5	56.0
Hawaii.....	18.3	0	18.3	21.0	2.7
Iowa.....	104.2	0	104.2	118.4	14.2
Idaho.....	30.8	0	30.8	38.4	7.6
Illinois.....	324.9	32.5	357.4	389.2	31.8
Indiana.....	169.2	16.9	186.1	193.7	7.6
Kansas.....	108.1	0	108.1	118.6	10.5
Kentucky.....	104.0	10.4	114.4	125.7	11.3
Louisiana.....	163.1	0	163.1	164.1	1.0
Massachusetts.....	165.1	16.5	181.6	187.6	6.0
Maryland.....	112.4	11.2	123.6	142.1	18.5
Maine.....	34.6	3.5	38.1	39.3	1.2
Michigan.....	295.5	0	295.5	335.7	40.2
Minnesota.....	168.9	0	168.9	169.2	.3
Missouri.....	156.2	15.6	171.8	197.7	25.9
Mississippi.....	80.0	8.0	88.0	90.9	2.9
Montana.....	27.4	0	27.4	32.5	5.1
Nebraska.....	50.8	0	50.8	66.5	14.7
North Carolina.....	168.5	16.8	185.3	199.4	14.1
North Dakota.....	24.5	0	24.5	27.8	3.3
New Hampshire.....	17.9	1.8	19.7	29.3	9.6
New Jersey.....	212.5	21.2	233.7	246.4	12.7
New Mexico.....	48.3	0	48.3	54.9	6.6
Nevada.....	19.7	2.0	21.7	27.4	5.7
New York.....	412.4	41.2	453.6	468.5	14.9
Ohio.....	319.8	0	319.8	363.3	43.5
Oklahoma.....	122.4	0	122.4	134.1	11.7
Oregon.....	67.7	6.8	74.5	87.2	12.7
Pennsylvania.....	313.2	31.3	344.5	355.8	11.3
Rhode Island.....	27.2	2.7	29.9	30.9	1.0
South Carolina.....	90.9	9.1	100.0	105.8	5.8
South Dakota.....	26.6	0	26.6	30.2	3.6
Tennessee.....	152.6	15.3	167.9	175.5	7.6
Texas.....	538.1	0	538.1	657.8	119.7
Utah.....	31.0	0	31.0	44.1	13.1
Virginia.....	147.4	14.7	162.1	193.2	31.1
Vermont.....	12.9	1.3	14.2	18.4	4.2
Washington.....	112.4	0	112.4	130.0	17.6
Wisconsin.....	138.8	0	138.8	157.1	18.3
West Virginia.....	39.8	4.0	43.8	62.2	18.4
Wyoming.....	21.0	0	21.0	21.7	.7
Total.....	6,821.0	352.7	7,173.7	8,033.0	859.3

Chairman HUMPHREY. Would you identify the two gentlemen with you?

Mr. SAWHILL. Yes. Mr. Darrell Smith is with me, who is from our allocation office and knows the technical details of allocations, and Mr. William von Raab serves as a Special Assistant to me and has also worked on the allocation program; and I have with me also people who have worked on our rationing program and on our pricing regulations.

Chairman HUMPHREY. Fine.

I have some questions here which we prepared for your being with us.

Considerable discussion still persists about the extent of any gasoline shortage. The National Petroleum Council, an expert industry group advising the Secretary of the Interior, just released a report estimating the gasoline shortage in the second quarter of 1974 at only 12.5 percent of the would-be unconstrained 1974 demands. In other words, if you just let it rip, it is only 12½ percent below what you might call the unrestrained 1974 demand.

Mr. SAWHILL. Yes.

Chairman HUMPHREY. Other knowledgeable authorities estimate that the shortage may be no more than 5 percent of the 1974 demands after the constraining influence of higher gasoline prices and the slackening of the economy. Meanwhile, gasoline inventories on March 1, this year, were 10 million barrels above last year. Why, then, did FEO assign gasoline allotments for March that are 10 percent below the 1972 level and over 20 percent below the unconstrained 1974 demand?

Mr. SAWHILL. Well, we did not assign these allotments. These allotments were initially assigned by the industry. In other words, the industry makes their allocations under our regulations; they determine the supplies they have available to distribute and the 1972 demands of their service stations. So they made these assignments, and then we went in and dipped into inventories to the extent of about 11 million barrels to provide increased allotments. Now, we could have gone further into inventories. We just did not feel it was prudent at that time.

It is true that inventories are 226 million barrels and that is 10 million above last year's 216 million barrels and that sounds like a lot of gasoline. It is a lot of gasoline, but we have got to remember that the minimum operable inventories are somewhere in the range of 180 to 170, let us say 170 million barrels. So this means that we really only have working inventories of 56 million barrels above those we need just to keep the pipelines full and the distribution system operating, and if we assume we are consuming at the rate of about 6 million barrels a day, that is only about 10 days' supply. So our inventories seem very large when you look at them in the aggregate, but when you remember that a large portion of these inventories really are not available for consumption, the inventories are not all that large.

As far as the estimates of shortages are concerned, we had initially been using a shortage estimate in the range of 15 to 20 percent and we expected that this would be the shortage for the second quarter. But we have had imports about 100,000 barrels a day above our full embargo estimates. We also have had production averaging about 100,000 barrels per day above our forecast so that we actually have had some buildups in inventories.

We also have had conservation. So I think now, rather than the 15 to 20 percent range, we would probably look at the shortage as somewhat less, perhaps more in line with the estimate that you quoted of 10 to 11 percent.

Chairman HUMPHREY. When you let the industry make the allo-

cation and you have the practice of price passthroughs and price adjustments, is there not some temptation for the industry to kind of hold back if they think they are going to get a price adjustment the next month?

Mr. SAWHILL. Well, of course, I think you are referring to the fact that during the month of February gasoline dealers became extremely disturbed over the fact that their profit margins and their total profits were shrinking in many cases to almost nothing or they were losing money because they had less gasoline to sell. And also, they were selling fewer tires, batteries, and accessories. So we permitted them to increase their prices 2 cents on March 1, and we announced that at the end of February.

Now, we felt it was prudent to make the announcement at the time we did because there was tremendous unrest among these gasoline station operations, and maybe it is true that some of them held back and did not sell until March; we really do not have any evidence of this at this point. But we felt it was most important that we announce this when we did, which was at the end of February, in order to cool off the situation and prevent some of the things that were being talked about at that time.

Chairman HUMPHREY. There was such a miraculous change from the long lines in February to March; that all seems to be related not only to the allocation program but to price. I think we have to be concerned about that.

Mr. SAWHILL. I think you are right. I do think this. One of the reasons the lines disappeared in February and I think have not reoccurred in March is this emergency allocation we talked about; while we announced it in February, it just did not all get in, in February.

Chairman HUMPHREY. I see that point.

Mr. SAWHILL. A lot of it has come over in March.

Chairman HUMPHREY. I think that is a very valid observation.

On this matter now of lifting the Arab oil embargo, it is estimated it will take as much as 6 to 8 weeks for crude oil to reach the United States from the Middle East in any appreciable amount once the embargo is actually lifted. It will take even longer for this crude oil to go through the refineries and pipelines. Therefore, even if the oil begins to flow tomorrow—and there is no assurance that the embargo lifting would be complied with by all Arab States and will not be reimposed if the Israel-Syria situation escalates—it will not be until around Memorial Day that the effects of the lifting will be felt by our gasoline consumers. I mean, that is just looking at the time it takes to bring in the crude, refine it, process it and get it out into the pipelines.

Mr. SAWHILL. Yes.

Chairman HUMPHREY. Given the above estimate, can we make it into June without rationing?

Mr. SAWHILL. I think we can because, as you pointed out, our inventories at 226 million barrels are 10 million barrels over what they were at this point last year. So we could draw on inventories to some extent to tide us over this period when we are waiting for the additional supplies to come into the country.

Chairman HUMPHREY. Can we do that without drawing down reserves to dangerously low levels?

Mr. SAWHILL. I believe that we can, yes. I think obviously, we have to be careful when we do this, and we have to be assured that the embargo really is over and the production is really going up and the supplies are really coming into this country. We would not be able to draw down inventories unless we had that kind of assurance, but if we did have that kind of assurance I think we could continue to draw down inventories as we have in the past because our refineries right now are switching over massively to making more gasoline.

Chairman HUMPHREY. From the fuel oil?

Mr. SAWHILL. Yes, because we have more than adequate stocks of fuel oil.

Chairman HUMPHREY. You got a good break on the weather on fuel oil.

Mr. SAWHILL. Tremendous break, yes.

Chairman HUMPHREY. Has the agency determined anything, any figure, that it feels would be a desirable adequate reserve during these rather precarious days? Has there been any calculation of that?

Mr. SAWHILL. Well, I think the size of the necessary inventory is going to depend on how confident we are that the embargo really has ended and that we really are getting increased production; it also always varies from month-to-month a little bit. We want bigger inventories at this time of the year than we expect to have in the summer, because at this time of the year normally we are producing more than we consume in order to build up inventories, and in the summer we consume more than we produce. We draw down inventories normally in the summer.

We are working right now on some figures and perhaps we could make these available to the committee.

Chairman HUMPHREY. I think it would be good—since your agency will soon get legislative status, probably within the week—

Mr. SAWHILL. So do we.

Chairman HUMPHREY [continuing]. And I must say that it is very necessary—we would hope that your agency might be able to give the country and the Congress some guidance on what is an adequate reserve because—

Mr. SAWHILL. Yes.

Chairman HUMPHREY [continuing]. We have gone through a very painful experience here with this embargo, and it still is uncertain how long it will last and whether the lifting will really last. We hope it will. But I just do not want to see us get into a situation after this experience where we have to draw down our reserve so much to meet current demands that, if an embargo is imposed again, we are really in a bind going, let us say, into the late summer or fall.

Mr. SAWHILL. Yes. I do not think we can afford to put ourselves into that kind of a position again, and over the longer run I think we are going to have to look seriously at increasing the storage capacity in this country.

Chairman HUMPHREY. That is one of the needs that your agency should be looking at in its advisory and planning capacity—

Mr. SAWHILL. Yes.

Chairman HUMPHREY [continuing]. And giving some guidance to us.

Just a question here that we had yesterday or the day before yesterday, Mr. Sawhill, that we did not really resolve without witnesses. We have talked about it a little this morning.

Mr. SAWHILL. Yes.

Chairman HUMPHREY. Do you think that the allocation system will be able to iron out the disparities among regions?

Mr. SAWHILL. I think it will, because even though the initial allocations that the companies make will contain some disparities, I think by drawing out of inventories and shifting inventories between States, that we can begin evening this out, and that is what we intend to do in April.

Chairman HUMPHREY. In other words, you are really going to evaluate each State as to whether or not it has extra supplies or is in short supply and try to arrive at a more equitable allocation, is that correct?

Mr. SAWHILL. Yes. We have not felt up to this point that our information was adequate to enable us to go into a State and take the supplies away from it.

Chairman HUMPHREY. I think you are right.

Mr. SAWHILL. But by April I think we are going to be in a position where we can do that kind of redistribution.

Chairman HUMPHREY. One of the things that may develop this summer that I would like to call to your attention is this: It is not likely that the existence of the shortage and the efforts of the people to conserve fuel will so change driving patterns from 1972 that gasoline demands will shift greatly from the pattern of supply dictated by the base period? For instance, if people take their vacations closer to home this year, will we not find unprecedented gasoline demand in the close-by vacation spots and less than in 1972 in the far-off national parks, for example, in the Rocky Mountain area, and so forth; if city people take fewer excursions, that is, long trips into the country, won't the locus of gasoline demand tend to shift from the country to the cities? Are you looking at this? Is there any concern in the agency?

Mr. SAWHILL. We are concerned about it in the agency. I have to tell you frankly, though, we do not yet have a good understanding of how to make an adjustment for that phenomenon, which may well be occurring; we could encourage it frankly. Even though the embargo ends and we get supplies back to the September 1973 level, we still face an important need for conservation in this country, not only gasoline but other petroleum as well, and all kinds of energy. So we have to keep hard at it, to push out car pooling program. We have to ask people to vacation closer to home and, instead of taking several weekend trips, to take one longer trip and to do all the things we have to do to conserve energy.

Chairman HUMPHREY. And you are going to keep at your conservation program?

Mr. SAWHILL. Yes. I think it is terribly important that we do.

Chairman HUMPHREY. Some of our witnesses on Tuesday from the petroleum retailers and from the American Automobile Association,

and so forth, urged that there be greater efforts on the part of the FEO to collect information from across the country so as to formulate some sort of standardized procedures that can be used—

Mr. SAWHILL. Yes.

Chairman HUMPHREY [continuing]. After the experience that we had in the winter months. I know, for example, we are getting letters now in some congressional offices—I know we are in our State—from people that say they want to come to Minnesota for a vacation—they would like to go into the northern part—what is the situation there? Can I get gasoline, et cetera, et cetera? Or how long do your stations stay open? Is there Sunday opening, and so on? I do believe it would be helpful if you would have one of your people look over the testimony from our Tuesday meeting, which we will make available to your agency rather than burdening you with the questions here today. Just look that testimony over and see whether some of the points raised have merit and what you can do about it.

Mr. SAWHILL. Well, I think the need for standardized procedures makes a lot of sense. We have got to urge Americans to drive less and to use their cars in a more efficient way, but I think we clearly have to make information available to them on the situation around the country.

Chairman HUMPHREY. I think you did make some statement that a major conservation effort was being prepared by FEO.

Mr. SAWHILL. Yes. I am really thinking about a longer range package of conservation initiatives that might include things like insulation standards for buildings and would augment the Mandatory Labeling Act that we have already sent up. I think it is this kind of package that we need to bring before the Congress, because this is really a solution to our longer range problem—reducing demand growth from the current rate of 4½ percent to something like 3 percent.

Chairman HUMPHREY. As one Senator I surely want to encourage you to pursue this conservation effort, because I believe there is always a danger that when this embargo is lifted we may very well relax on our efforts to be more self-sufficient. We may relax on our efforts here to conserve, and I believe that there was some good in then embargo in the sense that it brought us to our senses and compelled us to take a look at the waste of energy in this country; and as we noted of late, industry too has been able to save a great deal on energy.

Mr. SAWHILL. Yes, tremendously.

Chairman HUMPHREY. Tremendous savings. And I believe that there there is a great deal more that can be done, provided that there is some sense of direction. Otherwise we will go right back into the old bad habits. And I would hope with the legislative powers of the agency now on the horizon that the agency really will crack down on this and help us.

Mr. SAWHILL. Well, it is clearly our intent to have a strong and continuing conservation effort, not just a public relations effort but something with teeth in it, something that will cause a reduction in energy consumption. I think we have got to do that.

Chairman HUMPHREY. Spokesmen for motorists and retail station

operators testified before this subcommittee on Tuesday that restrictions on gasoline sales should be removed. They especially urged the removal of bans on fill-ups. They feel that these restrictions have aggravated the long-line problem and could do so again in the near future.

My question is, has the FEO reassessed its position on this question?

Mr. SAWHILL. Yes, I think we have reassessed our position on banning fill-ups and I think at this time we would be prepared to relax the restriction that we had previously. I do not think we would want to relax our minimum purchase requirement, however, because that can help reduce the lines.

Chairman HUMPHREY. I think there was a feeling that that should be maintained.

Mr. SAWHILL. Yes.

Chairman HUMPHREY. In other words—

Mr. SAWHILL. A minimum but no maximum.

Chairman HUMPHREY. Yes. But no maximum.

Mr. SAWHILL. Yes.

Chairman HUMPHREY. Senator Percy, who has taken a great interest in this matter, is here and I would like to yield to him for some questions now.

Senator PERCY. Thank you very much, Senator Humphrey.

We thank you, Mr. Sawhill, for once again appearing before a committee of the Congress. I do not know how many you have appeared at since you have taken office but we are grateful for your being with us.

I would like to ask you about the allocation program as it relates to the allegations that were made that, because of the allocation program at the producer level, imports were being actually restricted, cut back. It made no economic sense for a major importer to bring in oil and have to sell it at a lower price to a competitor of theirs and this actually was hurting the flow of product into this country.

It was my hope that the legislation that was passed was broad enough and gave enough discretionary authority to your office so that you could take those factors into account and correct them. Could you update us as to what now is the situation?

Mr. SAWHILL. Our General Counsel did not feel that the legislation passed gave us enough flexibility and he felt even the regulations which we have published for proposed rulemaking recently, which I will provide a sufficient incentive to bring more imports in, involve some question as to their legality. So I think we are going to need a change in some of the language of the law in order to make our regulations legal.

Senator PERCY. Could you put the question to your counsel. With a strict interpretation of the intention of the law to give an interpretation that would certainly not—it was not the intention, I should think, of the detractors of that legislation to actually inhibit and restrict imports coming into this country, but if you feel that modification in legislation is required, I certainly hope it can be sent up promptly and the situation corrected.

Mr. SAWHILL. Yes, sir.

Senator PERCY. I wonder, could you update us as to how you now interpret the impact for the American consumer of the reported decision for the embargo to be lifted now for a period of 2 months and then to be reimposed if the peacemaking efforts of the United States and the use of our diplomatic offices are not successful in bringing about the desired end objective? I have only had a verbal report on what actually occurred this morning. I cannot be any more specific than that. Can you give us any more specifics on it and then indicate what the action the oil-producing countries have taken in the Middle East means to the consumer if the embargo is permanently lifted; how quickly can we expect supplies? If it is reimposed in 2 months, what effect that would have on the consumer?

Mr. SAWHILL. Well, clearly, if the embargo were lifted and if we returned to September 1973 production levels, this would change the situation markedly. We would go from a situation in the second quarter of shortage in the range of 11 to 12 percent down to shortage in the range of zero to 4 percent perhaps, because I think that we could draw down our inventories almost immediately and begin making supplies available if we knew that the production was up and we could be assured of that crude oil coming into the country within the 30- to 45-day period it takes to get it here.

As far as the embargos being lifted for only 2 months is concerned, I think if we thought that was likely to happen, then we would have to be a great deal more circumspect about using our inventories.

Senator PERCY. Can you give us authoritative statements on what actually did come out of the Mideast this morning?

Mr. SAWHILL. No. I do not have any better information than you have, frankly.

Senator PERCY. Let us just assume, then, that the embargo is lifted for 2 months. What effect would this have on prices if it is only a two-month lifting, and what effect would it have if it is permanent? Would this exert a downward pressure on gasoline prices or do you think we have entered a period of permanently high prices on petrochemicals?

Mr. SAWHILL. I think we probably have entered a period of prices higher than they were prior to the embargo being imposed because the prices of the Middle Eastern countries have been raised significantly. They were tripled in 1973, and so I do not think we will see prices return to their preembargo levels for a long time, if ever. That is, prices at the gasoline pump.

On the other hand, as more supplies of oil come onto the world markets, if production levels are lifted, this could have some downward pressure on price. But this would be offset by the fact that we would be using a greater proportion of imports in this country which tend to be higher priced than our controlled domestic oil. So I think overall, while we might look for some stabilization in price and possibly some slight reduction in price, I would not look for any dramatic change.

Senator PERCY. Do you feel that certain quantities of fuel and gasoline are now being withheld from the market in the expectation that prices will go up?

Mr. SAWHILL. I do not think so.

Senator PERCY. And do you think that there would be a release of at least some of those supplies now, if it is apparent that there is not going to be much of an increase? There may be stability; in fact, there may be downward pressure. Would those supplies then tend to come into the market in greater quantities?

Mr. SAWHILL. I do not believe that there is excessive hoarding or withholding from the market of supplies in anticipation of a higher price, at least not in gasoline at this time. And so I would not expect that the scenario I have described—level or slightly reduced prices—would bring forth any large additional quantities.

Senator PERCY. Have Mr. Ash and Mr. Simon resolved their differences on the seriousness, long-term and short-term, of the energy problem?

Mr. SAWHILL. Yes. I believe that any differences that existed, and I think they were more differences that the press made something of than differences in fact, have been resolved.

Senator PERCY. Would you then care to make a statement that would embrace the views of both Mr. Ash and Mr. Simon—

Mr. SAWHILL. I will be on the spot.

Senator PERCY [continuing]. As to the seriousness of it, short-term and long-term, with particular emphasis on a statement that I notice Mr. Simon made, I think, this morning? Even if the embargo is lifted, he said, the problem—I do not know whether he used the word “problem” or “crisis.” That is important. I should have remembered that. But could you state how serious it is even if the embargo is lifted?

Mr. SAWHILL. Well, let us assume that the embargo were not to be lifted. If the embargo were not lifted, we originally had foreseen a shortage in the range of 17 percent for the second quarter. I think because of the conservation that we have practiced, because we have seen some buildup in inventories, because domestic production actually has gone up somewhat, and because we have had some leakage in the embargo, that our estimates would now be slightly lower on a percentage basis. It would probably go down to the range of 12 to 14 percent, and I think there would be general agreement in the administration on that figure.

If the embargo is lifted, I think we will see a much lower shortage, probably overall in the range of zero to 4 percent, somewhere in that area. In terms—

Chairman HUMPHREY. You mean a final shortage of around 2 to 3 percent?

Mr. SAWHILL. Yes, if the embargo is lifted and if we return to the September 1973 production levels.

Chairman HUMPHREY. Well, I would think that would be rather optimistic. I hope you are right. The National Petroleum Council estimated before the embargo was on that there was a shortfall in the country of over 5 percent. Now, of course, with the conservation measures, you can improve that.

Mr. SAWHILL. Yes, and I think we have significantly improved it. I think the important thing, thought, is not what the shortage is in the next quarter or the quarter after that, but really what is the nature of the long-term situation we face in energy. The fact is that

our demand is growing at 4½ percent a year, but domestic production has leveled off, so we are getting ever more dependent on the rest of the world. And as you said in your opening statement, Senator Humphrey, we just cannot put ourselves in the position where we are subject to this kind of economic blackmail. We have got to do something to reduce demand growth and bring on new sources of supply, and I think we all agree in the administration that this is our principal task. This is the goal of what we have come to call Project Independence—to put this country in a position where it is no longer so terribly dependent on the rest of the world for its sources of energy.

Senator PERCY. The exact quotation from this morning's New York Times is as follows: "Mr. Simon said that one of his main tasks, once the embargo is ended, would be to convince Americans that because of the continuing shortage of refining capacity in the United States and Europe, the energy problem has not been solved."

Now, he is basing that on refinery capacity.

Mr. SAWHILL. Yes.

Senator PERCY. What do we need to do to get adequate refinery capacity?

Mr. SAWHILL. Well, I think we need to do a couple of things. One of the most important things is we need to provide an energy facility siting bill which will make it possible for refiners to get places on which to site their refineries. We have seen from recent experience in New England, for example, that people just do not seem to like to have refineries near where they live, and yet we have got to build refineries in this country and we have got to have siting legislation which permits this to be done on a rational basis. We will be submitting such a proposal to the Congress and I think it is important that we work hard to get a bill enacted.

Senator PERCY. Is it mainly a problem of site selection or is it also a problem of return on investment on the refinery operation?

Mr. SAWHILL. Well, I think site selection is certainly an important part of the problem. Obviously, we have got to have an adequate return on investment. To build these refineries, the oil companies have got to be assured of adequate profitability so they will make the capital investment to do the job, and if we keep talking about price rollbacks—

Senator PERCY. What would a price rollback specifically do? What influence would this have on a management and a board of directors entrusted with the public stockholders' money?

Mr. SAWHILL. Well, I think it would obviously discourage new investment.

Senator PERCY. I could not agree more and I hope that, as a part of our educational program, we can put across the point that a price rollback is going to discourage the very creation of the capacity that we need to provide adequate supply. I do not think you are ever going to solve the problem if you do not get supply. This is our great concern. If we talk about price rollbacks and other ways of reducing the profitability of the oil companies and if we get overly concerned, emotionally concerned, with oil company profitability, what we are going to do is discourage the very thing we are trying

to create; namely, bringing on new sources of supply in this country. So instead of paying the dollars to American producers to build new—to bring on new supplies in America, we are going to continue to ship them on over to Saudi Arabia.

There are some in this country who argue that we could possible have an energy glut. They point the agricultural shortages of the years 1946 to 1959. They point to the shortages of 1950 and 1951. Even the dollar shortages that existed in the early fifties when dollars were short all over the world. And now there is a glut of dollars. In the *London Economist* magazine in an article entitled, "The Coming Glut of Energy," they cite the reasons why they feel it is going to be. "In modern conditions of high elasticity of both production and substitution, plus surprisingly equal leadtimes for many investment projects, we now generally do create overproduction of whatever politicians and pundits earlier thought would be most urgently needed, because both consensus-taking governments and profit-seeking producers are then triggered by that commentary into starting the overproduction cycle at precisely the same time."

In my own talks with oil companies, I have not seen a tendency on their part to just rush ahead now and develop the refinery capacity we might need, nor have I seen the rush on the part of communities to want to attract and invite refineries to come in.

Would you care to comment on whether you feel, though, that politicians are being overly concerned with this problem and may trigger us into a condition of overproduction of energy? Or do you foresee still a long-term shortage?

Mr. SAWHILL. I foresee for this country a long-term imbalance between supply and demand and I take issue with the statement you just read on a couple of points. The first is on the question of elasticity. It does not seem to me that demand is as elastic as the author of that article indicated. I think that it probably is more inelastic, and I would say the same for supply, at least in the short range.

As we have looked at the possibilities of bringing on new energy supplies in this country, we find this to be a very difficult task. To increase coal production—we could require a doubling of the coal miners in this country, and we just do not have that many people that want to go into the coal mining business these days.

It just seems to me the leadtimes built, to get coal gasification plants built. Let us take the case of nuclear energy, for example. We have had that technology around for 40 years and yet how much nuclear energy do we have? One percent of our total energy, as we are fond of saying is nuclear. Here is a technology that has been available to us and, because of all the problems of bringing a new technology on line, we still only have 1 percent. If it takes that long, I do not foresee any kind of an energy glut in this country.

Senator PERCY. I would like to ask specifically on the authority for your office. You do not have statutory authority yet. You are operating with regulations. The House has passed a bill; the Senate has passed a bill now to provide you with authority; and we are ready to go ahead with the conference and provide you statutory authority.

Mr. SAWHILL. Thank you. We need it.

Senator PERCY. I understand that there may be an attempt to hang

onto that bill price rollbacks or other of the highly controversial matters that have already been discussed, voted against, and about which the controversy is quite evident. Can you tell us what damage it would do, if any, if once again an attempt to get statutory authority for your offices is frustrated by this continued maneuvering to hang on these highly controversial matters?

Mr. SAWHILL. I think that would tremendous damage. The Congress has asked us to carry out an allocation program, to allocate supplies equitably to the American people, and yet they have refused so far to give us a bill which would establish our agency and put us in business and enable us to recruit on a permanent basis and to contract out with contractors to do some of the studies that the Congress wants us to do. We have just got to have this authority if we are to function effectively.

I have sat up here for hours and hours talking to Congressmen and listening to criticism about why we have not moved faster and why we have not brought more people on board. I think some of it is justified frankly, but if we do not get a bill, the Congress just cannot expect us to carry out its mandate. And if they—if they Christmas tree our bill and hang on it provisions such as a price rollback and unemployment insurance and other things that should be considered, I think, in separate legislation, it is going to seriously inhibit our ability to do the job that the Congress and the American people want us to do.

Senator PERCY. My last question pertains to taxes. Do you feel, first, that the oil companies are paying a fair share of their U.S. income taxes?

Mr. SAWHILL. Well, I think that depends on how you define fair share. Certainly, they are not paying the same percentage of total taxes to their profits as other companies in the country. But we have used the tax system in this country as a means of providing incentives to certain industries to make capital investments or to make investments in particular regions, and, viewed in that light, I think that the tax structure probably—

Senator PERCY. What incentives— what help—does it provide us to have a depletion allowance for foreign drilling?

Mr. SAWHILL. None. And we would favor elimination of that.

Senator PERCY. So you favor elimination of that?

Mr. SAWHILL. Yes, we would.

Senator PERCY. I should ask this of Mr. Simon because of his dual role as Under Secretary of the Treasury, but do you happen to know are now?

Mr. SAWHILL. No. I do not have that information.

offhand, Mr. Sawhill, what the total taxes paid by the oil companies

Senator PERCY. Would it sound like a fair ball park figure to you if we sought to have the oil companies pay \$3 billion to \$4 billion more a year in taxes? Might this be a fair goal?

Mr. SAWHILL. Well, of course, I do not have a good answer to that question but it seems to me that every dollar we take away from the oil companies is a dollar we may be taking out of investment to increase the productivity of our energy industry. So I think we have to—

Senator PERCY. Would it—

Mr. SAWHILL [continuing]. Weigh that in thinking about taxes.

Senator PERCY. Would it be proper for us to go to the oil companies who are experts in the field, and say we think—and I just happen to feel that they will feel better not being under the cloud of paying only 1 to 7 percent in income taxes when other corporations are paying between 30 and 48 percent and individuals are paying more on their individual incomes—would it be a desirable thing from our standpoint to say, here is what we think ought to be the minimum tax level paid by a major industry in this country, but you tell us how we can increase tax revenue by that amount without destroying your incentive to produce and provide adequate supply? We would like to do it in the least harmful way. Taxes always hurt anyone.

Mr. SAWHILL. Yes.

Senator PERCY. But we want to do it in such a way that we will not destroy incentive; we will not remove incentive for the very kind of production that we are going to require in the future.

Mr. SAWHILL. Well, I think—

Senator PERCY. Is it in your judgment equitable and fair to work with an industry in trying to find the best way to increase their tax load rather than just arbitrarily picking something the impact of which we might not really know?

Mr. SAWHILL. I think it would make sense to find out from the people who are going to be subject to the tax which taxes will provide greater or lesser incentives, yes.

Senator PERCY. Last, I have just taken delivery yesterday morning of my new 6-cylinder compact. Do you know how I can get rid of my 4-door, 8-cylinder automobile?

Mr. SAWHILL. No, sir. I do not. I drive a 4-cylinder car myself.

Senator PERCY. Thank you very kindly, Mr. Sawhill.

Chairman HUMPHREY. Mr. Sawhill, I agree with the necessity of incentive to get investment but sometimes the incentive becomes more than an incentive. It becomes a kind of gluttony and I think that is what has happened here.

Now, we have built a great automobile industry and they have been taxed. We built a great iron ore industry and steel industry in this country. It has been taxed. I do not know what is so unique about the oil industry that they have got to be treated like a sort of neurotic sick child that needs overly protective mother care and psychiatric treatment.

What is so unique about it?

Mr. SAWHILL. I do not have any, you know, any real, you know, good answer to your question.

Chairman HUMPHREY. I believe they have sold us a bill of goods that somehow or other you are not going to get any oil unless you treat them differently. Next thing I can see United States Steel coming in here and saying you are not going to get any steel unless you treat them differently. They pay corporate taxes. And Minnesota Mining pays taxes. Beer companies pay taxes.

Mr. SAWHILL. Well—

Chairman HUMPHREY. I am just simply saying I want them to

have an incentive but I am not going to let the record look like somehow or other they need to be brought in-house and told, "Industry, you tell us how we should tax you."

Well, now, you know that if that is how it's done, a lot of folks out here would like to tell the Congress how to tax them.

Mr. SAWHILL. I do not think that was quite Senator Percy's point.

Chairman HUMPHREY. No, I do not think it was his point but I am worried that it is being sold to the public.

Mr. SAWHILL. My interpretation of his point was that we clearly need to increase the tax take from the oil industry but we want to do it in a way which will be least damaging to the incentives to bring on new production, and perhaps one of the ways to find out where the important incentives are is to talk to the industry and those who are going to end up paying the taxes anyway.

Chairman HUMPHREY. I think that is possible true. Another way recommended by some of us is to set up a sort of quasi-public corporation like a sort of TVA like we did with the utilities to see what it really takes to produce a barrel of oil and what the costs are. They vary, of course, in different parts of the world. There are two ways we can deal with the oil companies. If the income is too high, maybe they can reduce the price.

Mr. SAWHILL. Yes.

Chairman HUMPHREY. That would help. We have seen unprecedented price increases in the last few months, and I hope that we have seen—I hope that they have leveled off here and will come down. When you talk about price rollbacks, it is not as if somehow or another we were going to impoverish these poor weaklings, these little struggling companies. I had some figures here that—

Mr. SAWHILL. Well, you are right, Senator, that the major oil companies are giant corporations but there are small producers as well.

Chairman HUMPHREY. Oh, absolutely, and I think that there has to be a difference. I think our tax laws should be fixed so there are incentives. I voted for investment tax credit. I am a capitalist. I believe in the free enterprise system. I believe in it strongly, but I tell you these oil companies have got a bad public image and they better understand it. They have a bad public image and all their full-page ads together are not going to redeem them, because prices have gone up. The average fellow out in the countryside and the worker and businessman are paying a lot more for their petroleum. Whole economies today are—really whole economies are being restructured. Right here this past week in Washington there was a meeting of the major international banking officials to see what they can do to save the economies of about half the countries of the world. The World Bank, the African Development Bank. Asian Development Bank, IMF, and what were they here for? They were here to see whether or not there was some way they could not bail out these weak economies that are the victims of incredible price increases, particularly in fuel.

Now, they have said the Arab nations ought to share more with the poor. I will wait for that.

Mr. SAWHILL. Well, I think—

Chairman HUMPHREY. One nation shared. There is one country that has been sharing but that is not Arab. I have to be very frank about it, because when we talk about—you were worried about the profitability of the oil companies. I am worried about not only the profitability of the oil companies but about the wellbeing of the consumers of this country. They are entitled to fair prices. And when I see these big majors start closing in on all the independents—we had testimony here that thousands of independent oil dealers that kept prices down when there was an adequate supply have been eliminated, and there is a restructuring of the market, vertical integration, from the crude oil and the tanker to the refinery and the co-ownership of pipelines right on out to the jobber and the retailers. The whole chain is owned by the same company.

I am going to repeat what I said Tuesday. These oil companies better remember that there are antitrust laws, that there may be a change in administration, that there may be different people in Congress; we do not like what we are seeing because this is not competition. This is oligopoly! Not monopoly, oligopoly. I think that we have got to do something about it.

Now, having gotten my fever up here a little bit on this, and it will stay up permanently until we see some results—

Mr. SAWHILL. You should recognize that you are talking to a regulator of the oil industry in me. I have got to look at end balance off the interests of consumers, environmentalists, labor, industry.

Chairman HUMPHREY. I just needed you there as the target for the moment. I am not holding you accountable. I just want to make sure you are not trapped into the thinking what I sometimes see and hear.

Mr. SAWHILL. OK.

Chairman HUMPHREY. Speaking of what I just said, though, and what you said about your agency, I think your agency must have its authorizing legislation and I do not think we ought to try to encumber the legislation unnecessarily. I think there is a way we can do that, however. Yesterday we acted on unemployment compensation. There are some things we can do separately from the bill that affects your Agency. You need the law and we ought to take care of it, and you are right in being a bit critical of the Congress on delaying this. I would hope you might speak to the President about the veto, but that is a little aside.

Now, the FEO is concentrating its efforts these days on the present problems of allocation discrepancies, as you said here today, and lines at the gas pumps, and assuring gas for priority users. That's a big job. However, it is essential that the bigger, longer-term questions of how we meet our nation's future energy requirements in 1980 and beyond be addressed immediately. I want to point out that we have gotten so fixed on current events that we have forgotten the forecasts that have been made about future energy needs. You addressed yourself to it somewhat this morning, saying you do not see an energy glut. I tend to agree with you. The requirements of our economy are going to be great. Therefore, we need a comprehensive, long-term energy policy. We need to decide where we will invest our public resources, where we will encourage private spending and how we will influence our energy consumption habits.

What is the administration doing to develop such a national energy policy? When will it be ready for the Congress and the public to review and discuss?

Mr. SAWHILL. I gave a presentation to the Vice President and several members of the Cabinet yesterday in which I outlined our organization plan for creating a blueprint for what we call Project Independence, and basically that is a plan for creating a national energy policy as you just outlined. Our plan is to work over the next several months and by this fall to be in a position to come to Congress with a national energy policy that would include a legislative package and budgetary requirement. It would define what we need to put into place in this country over the next several years to move toward a goal of energy self-sufficiency. It would get at the kind of changes we need in regulations and administrative practices, looking at each different fuel type to determine how we ought to develop them and provide incentives for bringing these fuels on line more quickly. It would look at our overall research and development plan to see in what areas we need to put research and development, and how much.

I do not think one can create something like this in a week or month. I think it is going to take us several months and I would envision coming back to you in the fall with a complete package.

The President has assigned the lead responsibility in developing this to the Federal Energy Office.

Chairman HUMPHREY. Good.

Mr. SAWHILL. And we intend to make this our number one priority over the next several months.

Chairman HUMPHREY. The purpose of my question was to elicit that response. I am very pleased. Would it be helpful to you, for example, if there were a Joint Committee on Energy here in the Congress? I sometimes really do feel sorry for you and Mr. Simon. You have to go to every little old subcommittee like mine. I bring you up here for this subcommittee, and then you have to go to Interior and to Appropriations, et cetera. You are all over the Congress.

Would it be helpful to you if you had one sounding board?

Mr. SAWHILL. I would urge the Congress to establish a Joint Committee because I think this could be a way in which we could come and work closely with the Congress on—

Chairman HUMPHREY. Policy.

Mr. SAWHILL [continuing]. Policy on this very thing I am talking about. We could have periodic reviews of this program and could gain agreement and then we could understand the legislation we need and move forward with it quickly, rather than having all the bills that are up here on the Hill now and very little action.

I think we could establish a much better dialogue and a much better framework for obtaining agreement if we had such a committee.

Chairman HUMPHREY. I hope to introduce such a bill, a Joint Committee on Energy Policy, not a legislative committee but a policy-discussion committee. Then from that, after we have had the dialogue between your office and the Joint Committee, then you can go to the proper legislative committee for your legislative authority. The way it is now, as I say, we in Congress criticize FEO, and I have been

right in the forefront at times on this, but we have more committees and subcommittees around here and it is pretty hard to know where your base—where you need to talk and where you ought to go.

Mr. SAWHILL. I think we would certainly support that kind of—

Chairman HUMPHREY. We will have something up here.

Just a quick question on the fertilizer problem. Fertilizer has natural gas as its feedstock. Now the scarcity of fertilizer this spring, as we have discussed, could have some serious repercussions on food production. There seems to be a temporary surplus on fertilizer. If this current surplus disappears however, will our fertilizer producers be getting enough natural gas to permit them to run their plants at very close to their capacity? If not, how can this critical problem be overcome so production can be maximized and grocery store prices held at some kind of reasonable levels? Remember, this is what this administration is counting on most to counter inflation. In other words, is the FEO proposing any disincentives to low priority gas users?

Mr. SAWHILL. At this point we are not. You must remember that natural gas is regulated by the Federal Power Commission rather than FEO. Now, we could make some proposals to establish a tax on excessive use of natural gas or other kinds of disincentives. I do not think that would have much effect on the near term. But it is something we have had under active consideration.

I think the fertilizer problem is something that is much broader than FEO. It really is a price problem. It is a problem for the Department of Agriculture as well as for the FEO.

Chairman HUMPHREY. And the FPC.

Mr. SAWHILL. Yes, but we will certainly do everything we can to provide adequate supplies of fuels to the fertilizer industry because, as you state, there may be a shortage of fertilizer and that clearly would have a detrimental effect on our capability to produce food.

Chairman HUMPHREY. Now, on propane I mentioned that there is a current surplus. Adverse weather conditions could dry up these surpluses. If this happens, we would be in serious trouble again on this vital fuel.

What is the FEO doing to provide against this contingency? What is the FEO doing on the outrageous propane price structure?

Mr. SAWHILL. Well, on the price structure, about three weeks ago I called in the industry and I told them basically to either roll back their prices or we were going to roll them back. Subsequently, prices have dropped fairly significantly. They were in the range of 40 cents and now they have come down to 30 cents or 25 cents. And so I think we have achieved some results as far as propane prices are concerned.

As far as supplies are concerned, I think one thing we would do—we have not done this but what we considered doing is banning the use of propane by utilities, in utility boilers.

Chairman HUMPHREY. Right.

Mr. SAWHILL. I think that might be a good step because that would make more supplies available and also should have a favorable effect on price.

Chairman HUMPHREY. You might do the same thing with the FPC with gas in boilers, too.

Mr. SAWHILL. Well, if we could get legislation to enable us to put coal under those boilers, because I am not sure I would want to put residual oil under them.

Chairman HUMPHREY. Your allocation, will the FEO write new regulations before they expire on April 30?

Mr. SAWHILL. I think we probably will. Well, certainly if the embargo ends we will modify significantly all our regulations including our propane regulations.

Chairman HUMPHREY. Senator Proxmire.

Senator PROXMIRE. Mr. Sawhill, I understood when you testified before this committee before that with the end of the embargo you anticipated about an 8 percent shortage of oil and about a 4 percent shortage of gasoline. Is that still firm?

Mr. SAWHILL. No. I think probably our estimates would be reduced now and—

Senator PROXMIRE. What would they be now?

Mr. SAWHILL. I think we would be talking, oh, in the range of zero to 4 percent and I think the reason we have lowered our estimates is because inventories have built up due to the warmer weather and conservation, because we have gotten some more imports than we expected to get, not a lot but some more, because domestic production has actually been up, and finally, because increased prices have obviously had an impact.

Senator PROXMIRE. And because there has been conservation?

Mr. SAWHILL. I said conservation.

Senator PROXMIRE. I missed that. But we might get quite a turn-around on consumption with the end of the embargo.

Mr. SAWHILL. We could. It would depend on prices, I think.

Senator PROXMIRE. There were several indications what might happen. One is that gasoline stations might be open on Sunday. Is that real possibility?

Mr. SAWHILL. Yes. Of course, we never had a mandatory closing on Sunday.

Senator PROXMIRE. But the President requested it and they patriotically agreed they would do that.

Mr. SAWHILL. Yes. I would think that would be one of the things we would consider lifting, that ban on Sunday closings, primarily because this has affected the tourist industry in this country and if we have got to try to protect jobs, we have got to have incentives.

Senator PROXMIRE. That is right. However, if we permit gasoline stations to be open on Sunday and gasoline is made readily available, is it not possible we could have a continued shortage? I notice that—

Mr. SAWHILL. Yes.

Senator PROXMIRE [continuing]. Mr. Simon this morning said, "We anticipated spot shortages would continue."

Mr. SAWHILL. Yes. When I am talking about in the range of 4 percent, that is kind of a spot shortage type. I think last summer Denver had a shortage of somewhere around 4 percent and that was a sort of uncomfortable kind of shortage to live with.

Senator PROXMIRE. All right. Now, if we have that kind of a situation, how long would it be necessary to retain, in your view, price limitations on gasoline?

Mr. SAWHILL. Price controls?

Senator PROXMIRE. Yes. Do you think it would be possible to move into a free market within a period of months or would that still take several years?

Mr. SAWHILL. Well, I think that we are going to have to maintain price controls for some time. Whether it is several months or several years I am not sure. I think certainly until our current authority expires, which is in February 1975, we would want to maintain price controls on crude oil that we have and controls on refiners' margins. I think we need to maintain those and I think we can maintain them without destroying the incentives to bring on new production.

Senator PROXMIRE. The reason for the rollback was that we have never gotten an explanation that I can understand from you or Mr. Simon or anybody else in FEO as to the reason why we had the very large increase in crude oil over the past year, it has gone from \$3.50—

Mr. SAWHILL. Crude oil prices—

Senator PROXMIRE [continuing]. To \$5.25 per barrel for old oil and, of course, much higher for other oil, why we have gotten that enormous increase? Obviously, there is not incentive for more production with the old oil. The old oil was there. There was every indication it would be produced at far less than \$5.25. The reason I supported the rollback was because there just did not seem to be any justification for what seemed to be an artificially and unnecessarily high price.

Mr. SAWHILL. Yes, but I think the rollback, as I understand it, applied to new oil and stripper well oil rather than—the rollback would not have reduced the old oil price. It would have put a cap on new prices and stripper well oil.

Senator PROXMIRE. The cap was \$7.09?

Mr. SAWHILL. No, I think it was \$5 with an opportunity to go up.

Senator PROXMIRE. That is right. The opportunity was there.

Mr. SAWHILL. Yes, some opportunities, but it would have required an administrative procedure but in any event, I think there is a difference between old oil and new oil and I think that to keep the price of oil up, I do not know where the price would be, whether it should be \$7.25 or \$8.25 or \$9.10. I do not think any of us can really pinpoint exactly what the long-range supply price of these alternative sources is.

Senator PROXMIRE. Have you yet arrived at a justification for the \$5.25 price rollback for old oil?

Mr. SAWHILL. I do not think this is something that you cost justify.

Senator PROXMIRE. You do not cost justify?

Mr. SAWHILL. No, I do not think you do. You know, prices are based on demand and supply. They are not based solely on the supply curve.

Senator PROXMIRE. Well, if you do not cost justify it, then you are allowing an enormous transfer of income from consumers to the oil companies and I mean enormous. The profits of last year will be just dwarfed by the profits we are going to have in 1974 with this new price that went into effect in December 1973, will they not? And if it is not justified on a cost basis, I do not know why you have any price controls at all. Why stop at \$5.25?

Mr. SAWHILL. Well, I think you do not just suddenly let a price explode.

Senator PROXMIRE. Well, may I just interrupt to say as I understand the philosophy of our wage-price control system, it has been to bottom it, to base it on costs. That has been true everywhere except in the energy area. Now you have got something else here, another standard that I think is very vague and results in an extraordinarily high price and what seems to be an exploitation by the oil companies of the consumer when you get an oil oil price that, as I say, cannot be justified on the grounds of more production because that would apply to the new oil but not to the old oil.

Mr. SAWHILL. That is correct.

Senator PROXMIRE. And it seems to be much, much higher than is necessary.

Mr. SAWHILL. Well, I think what you have got to eventually get to in this country is one price for oil, not a series of prices, a different price for stripper well and oil oil and new oil. I think we have got to move to one price that basically has got to be tied to the world market price and to the extent that price has been allowed to go up, it has moved toward these longer range prices which is probably where the price is ultimately going to settle.

Senator PROXMIRE. Have we made any progress in getting better and more reliable information from the oil industry than before? That has been a point of contention with this committee and particularly with my subcommittee where we had hearings on this.

Mr. SAWHILL. Yes, sir.

Senator PROXMIRE. And virtually all the information came from the American Petroleum Institute or from the companies themselves, very little information from the Government except what the Government in turn received from the industry. It was a very peculiar situation there. Agriculture and Commerce, and so forth, gather their own information, audit their own information, verify their own information, but in oil we just get it from the people who have a self-serving reason for providing what information they wish, not that they are not good, honest people, I am sure they are, but they are in a position which is, I think, very advantageous to them and very disadvantageous for the consumer and for the Government.

Mr. SAWHILL. Well, as you know, we will shortly discontinue getting our information from the American Petroleum Institute and begin getting—

Senator PROXMIRE. When?

Mr. SAWHILL. [continuing]. Our information directly from—I do not know what the exact date is but I am sure it is within the next month—the companies and as we get it directly from the companies, we will send audit teams out to the companies to insure that the information we are getting has been verified by Government officials. We already have these audit teams auditing some of the refiners right now, as a matter of fact.

Senator PROXMIRE. Yes. Five or 6 weeks ago Mr. Simon announced we would audit, the Government would audit the refiners.

Mr. SAWHILL. Yes. This audit program began in early February.

Senator PROXMIRE. What has been the result of that? What have you found?

Mr. SAWHILL. I do not think we have any meaningful results yet. They just started to go out.

Senator PROXMIRE. When will you be in a position to get cost estimates that will be useful?

Mr. SAWHILL. Well, I think that we will accumulate this information over a series of months. I mean, I think that the Cost of Living Council had some good cost estimates and we probably have good cost estimates on refiners margins and that kind of thing. I think it is going to take us a while before we can get good cost estimates on the producing side of the business.

[The following information was subsequently supplied for the record by Mr. Sawhill in the context of the above interrogation by Senator Proxmire:]

REFINERY AUDIT PROGRAM STATUS REPORT

The refinery audit program is intended to be a continuing and not a one-time program. Auditors have been assigned to follow the approximately 30 largest refiners on a continuing basis and other refiners on an intermittent basis, as needed. The first comprehensive review is now under way and is not expected to be complete until at least the latter part of May.

However, audits and investigations to date of complaints of suspected violations have resulted in several specific actions being taken, without waiting for the completion of the first phase of the investigation. Thus far approximately \$55 million of *increases* on the part of 4 or 5 companies has been challenged and in the near future FEO expects to challenge additional increases in prices amounting to many millions of dollars—approximately \$35 million in the case of just one company.

FEO has issued numerous remedial orders to refiners that had increased prices without properly reporting cost justifications to FEO. Remedial orders were also issued to several refiners requesting recomputation of cost increase figures where proposed price increases would result in over-recovery of costs. It was found that several cases of over-recovery were due to the fact that certain companies anticipated the change in the Canadian excise tax before it became effective. In addition, FEO has initiated a special investigation of the pricing practices of major oil companies where transfer from a controlled foreign subsidiary to the parent company is involved. Results from this investigation will not be known for several weeks.

Senator PROXMIRE. In the event the good news that seems about to be forthcoming on the end of the embargo materializes, does that mean that rationing is a dead letter, that we will not have rationing?

Mr. SAWHILL. Well, I would say this, that if the embargo ends and if we are confident that we are going to get restoration of the preembargo production levels, that I would think rationing at that point would only be a remote possibility.

Senator PROXMIRE. Now, I would just like to spend a couple of more minutes because I think that the previous questioning got into a very interesting area with respect to the favors to the oil industry. I do not think we have mentioned the biggest advantages that the oil industry has which are these. They have had effective regulation of their domestic oil supply through prorationing systems over the years. And this has enabled them to fix their prices, in effect, for domestic oil. Then they have had the oil import quota system that has protected them for years—now it is no longer necessary—from foreign competition. On top of that they get these tremendous tax advantages.

Now, you argued and one of the questioners indicated that they

did not want the tax changes that would reduce incentives for producing more oil. I am not so sure that philosophy in the long run makes sense. It does not seem logical to me that we should have a tax incentive to use up a limited resource. We are energy gluttons in this country. Why should we adopt a policy that encourages an artificially low price of gasoline, encouraging consumption, when we have this limited supply, and why should we interfere in the free market to that extent?

Mr. SAWHILL. Well, I think it is a question of how much you interfere. I would agree that we do not want to keep prices artificially low and encourage a rapid depletion of our fossil fuel reserves. On the other hand, I think we have to recognize, as we look forward at some point, this country is going to run out of oil unless our geological estimates are all wrong, so what we have got to do is be concentrating on developing alternative energy sources.

Senator PROXMIRE. Why not let the market determine that rather than let artificial programs like the oil depletion allowance which, incidentally, on the basis of every survey I have seen by academic people outside the oil industry, has not worked very well, has not achieved a greater degree of exploration, improving reserves?

Mr. SAWHILL. That has been my understanding, too, that the depletion allowance has not contributed all that much to increased production—

Senator PROXMIRE. Has your office done anything—

Mr. SAWHILL [continuing]. Against the foreign oil depletion.

Senator PROXMIRE. How about the golden gimmick?

Mr. SAWHILL. Pardon?

Senator PROXMIRE. I am talking about the provision in the tax law that enables the oil companies to subtract the taxes they pay to other countries, royalties they pay to other countries from their taxes as a tax credit.

Mr. SAWHILL. I think that is something that the Treasury is studying and whether they have come forward with a proposal or not, I do not know.

Senator PROXMIRE. Intangible drilling writeoff, does that apply abroad or do you think that should not?

Mr. SAWHILL. Again, I think we are getting into tax matters that are probably a little outside—

Senator PROXMIRE. I think it is very critical. This is one of the reasons we have—I think those incentives were applied abroad very foolishly.

Mr. SAWHILL. Yes, I would agree with you. Without discussing the specifics, we do not want to give our industry incentives to explore outside the United States. We want to give them incentives to explore in this country and disincentives to explore outside this country.

Senator PROXMIRE. My time is up. I have just one more question. You mentioned in your prepared statement the West Virginia strike. We are all very aware of the truckers' strike which was featured by violence, a tragic situation in our country. Do you have any kind of a program to anticipate this kind of disruption so that we can meet it with policies that would forestall it and policies that would prevent this kind of sheer muscle prevailing? In every case I have seen when

they have struck or when they have used—resorted to violence they won, and I think that is a very bad precedent for our country and a very bad basis on which public policy should be determined, and I think it is partly because we have not had, Congress too, perhaps, we have not had the imagination to provide policies that would prevent this kind of thing.

Mr. SAWHILL. Well, I think to some extent these situations have arisen out of the fact that we have regulated the oil industry. In a very short period of time, about a month, we put together a very complex set of regulations over a very complex industry and obviously inequities resulted from it. We tried to be flexible. In giving additional price increases to gasoline station owners, we made some provisions for the truckers and this required working with ICC, which was a difficult thing.

As far as the miners in West Virginia, we have anticipated problems that miners have experienced in other States and it seems to me the problem in West Virginia is more complex than just not sufficient gasoline.

Senator PROXMIRE. What concerns many people is that the national Government, Federal Government, which certainly in this area should have exercised leadership, had to give way to the Governor of Pennsylvania in the case of the truckers' strike and does not seem to be exerting the kind of imaginative, aggressive leadership which the situation calls for.

Mr. SAWHILL. At times when we exercise that kind of leadership, you do not hear about it. This just is not dramatized because the problem is taken care of right away.

Senator PROXMIRE. Tell us about it. We would like to know.

Mr. SAWHILL. For example, in Kentucky, I talked to the Governor of Kentucky 2 or 3 weeks ago about a similar problem he had had brewing in his State, the fact that we did not have adequate fuel so the miners could get to work, did not have adequate fuel to provide for coal mining and other forms of energy. We made some provisions in our regulations and I sent him a letter outlining a plan which he adopted. It is things like that that we do every day that solve these problems before they become problems.

I think another example is the retail gasoline station owners. We met with them and I did continuously for 12, 14, 18 hours at a time and you know, I was on the phone for 3 or 4 hours in a row with dealers out in Oregon and Washington and we did not have any national strike of retail gasoline station owners.

I think we are doing things but they are things that just do not get national attention and they should not. We ought to anticipate these problems.

Senator PROXMIRE. Thank you.

Chairman HUMPHREY. Very good, Mr. Sawhill.

Senator JAVITS has some questions. You have been a very patient witness and very forthcoming. We have been here a couple of hours. Do you need a break, any of you?

Mr. SAWHILL. No.

Chairman HUMPHREY. OK.

Senator JAVITS. Thank you very much, Mr. Chairman. Mr. Chairman, I shall try to confine my questions to the 10 minutes.

I noticed that you said to Senator Proxmire that rationing would be academic if the oil embargo were lifted. I have been for rationing, and so the question I would like to ask you is, what happens to allocations if the oil embargo is lifted?

Mr. SAWHILL. I think our allocation system would become a great deal more flexible if the embargo is lifted and if we had the assurance of additional supplies.

You know, I think it is a combination of not only an embargo being lifted but of the assurance of getting more supplies. I think we would become a great deal more flexible in the exercise of our allocation program because we would not be under such constraints to preserve for greater demand periods of the year like this summer.

Senator JAVITS. We were disturbed in New York that the allocations for March were based on the allocations for February and, therefore, the danger that the same kind of tightness would take place in March as it did in February. Also, that we felt the State reserve was too small, as you depend so heavily on it. We would recommend that it go to 5 percent.

Could you comment on both those?

Mr. SAWHILL. Well, I think New York actually was more fortunate than many other States because New York had an allocation fraction which was above the national average, although I should say only slightly above, but New York—actually, we used three rules in trying to determine the allocation for each State in March and we took the higher of the three.

The first was how much the oil companies said they were going to put into the State. The second was 85 percent of the adjusted March 192 figure. And the third was 113 percent of the February figure.

In New York's case the oil companies initially under our regulations were going to put in 417 million gallons. Under the revised allocations that we announced last week, they will be putting in almost 470 million gallons, 468½ million gallons, so we increased the supplies to New York about 50 million gallons through our allocation rules and brought New York up over the national average.

I know there is concern in New York because they feel that if they take their February supplies and they add to it the total emergency allocation that we made in February and then they look at that on a per day basis, what they are getting in March, it appears to be less. But I think the facts are that they did not get all of that emergency allocation in February. A lot of this is being carried over to March. I cannot tell you exactly what the split is but I think New York is going to be better off in March than it was in February.

Senator JAVITS. The tremendous increase in residual oil prices which is putting a tremendous squeeze on landlords, apartment owners, co-op owners, schools, hospitals, and educational institutions. What, if anything, can FEO do about the inequitable pricing pattern in view of the provisions of the Emergency Petroleum Act on that subject which read: "Equitable distribution of residual fuel oil at equitable prices among all regions and areas of the United States."

Mr. SAWHILL. Well, you know, we import roughly 65 percent of our residual oil. Our refineries in this country do not make it. It primarily comes from the Caribbean. Most of the residual oil in this country

comes into the East Coast and naturally because it is based on the higher prices we pay for imported oil, we are finding higher prices for residual in cities like New York.

I have talked to Mayor Beame about this and I recognize this is causing the very problems that you are pointing out. I do not have a good solution right now to how we level out prices because if we reduce prices for people in New York, this means we are going to be increasing prices for people in other parts of the country and I do not think there is a great deal of leveling out we can do.

It seems to me a better solution rather than reducing prices is finding some other way to subsidize people that have been subject to these very high prices.

Senator JAVITS. That is in the New York area?

Mr. SAWHILL. Yes.

Senator JAVITS. And would you recommend that as a method of equalization because they are taking the rap the hardest for these imports?

Mr. SAWHILL. Yes. I just wonder if there is not some program either through HUD or HEW that could provide some kind of special benefits to people in these apartments in New York—since I used to live in an apartment in New York, I well understand the problem—rather than trying to change the distribution system around so that we would level off prices.

Senator JAVITS. In that same connection, what about the possibility of mandating the production of residual oil in this country?

Mr. SAWHILL. That certainly would be a possibility. I am not sure of the capabilities of our refineries. I would have to come back to you.

Senator JAVITS. Can you look into that?

Mr. SAWHILL. Yes, I could.

Senator JAVITS. And give us a reply for the record.

Mr. SAWHILL. Yes.

Senator JAVITS. Because that would seem the most likely way to get relief.

Mr. SAWHILL. Yes.

[The following information was subsequently supplied for the record:]

MANDATED PRODUCTION OF RESIDUAL OIL

Over the past decade, a pattern has evolved whereby residual fuel oil for the East Coast is predominately supplied by imports from Caribbean refineries. In turn, domestic refineries have tended to minimize residual fuel oil production through the installation of processing units such as catalytic cracking and coking to convert the heavy crude fraction into products such as gasoline, heating oil and diesel fuel.

Any increase in residual oil production would require a corresponding decrease in the production of other products. Modifications or additions to refining and transportation facilities would also be required to accommodate any major shift in refinery yield patterns. Fortunately, with the lifting of the Arab boycott, it appears that it will not be necessary to mandate production of residual fuel oil from domestic refineries.

On a longer term basis, the construction of new refinery capacity on the East Coast may permit a more favorable balance between domestically refined and imported products. In addition, a resurgence in the use of coal in power plants and an acceleration in the pace of building nuclear power plants are factors that will have an increasing influence on the demand and production of residual fuel oils.

Senator JAVITS. The last thing I want to ask you about is conservation. May I tell you that I am very deeply concerned that euphoria will return with the lifting of the embargo and that the lifting of the embargo could be the worst kind of national entrapment. In short, if it would be lifted, we would go back to tremendous profligacy in the use of gasoline and then when they crack down on us again as they could the day after tomorrow, the people would feel tremendous hardship. There would be tremendous resentment, great social instability, only because we have failed to persevere in conservation. Therefore, can I ask you this:

What is the policy of the administration and how will it follow through on the effort to continue conservation which is essential in the national interest, even though the embargo is lifted?

Mr. SAWHILL. We intend to have a very strong and positive conservation program even though the embargo is lifted because we recognize like you do, that one of the real causes of the energy problems in this country has been the very rapid rate of demand growth. I think what we need to put into place are long-term conservation measures, not things like Sunday closings but things like major efforts directed at car pooling. I think we need to put into place our lighting standards which could save 800,000 barrels a day of residual if they were uniformly applied across the country.

I think we need legislation to mandate national building codes. I think we need to work with the automobile industry to see if there are ways that we can accelerate the reduction in the—or the increase in miles per gallon or the energy efficiency of our automobiles. I think we need a very broad based package of conservation initiatives and we intend, assuming we get statutorily based as an office, vigorously to pursue a very active conservation program because I could not agree more. I think while we talk a lot about bringing on new supplies, we have got to remember that the demand side of the equation is equally important and I certainly would make this a major responsibility of our agency.

Senator JAVITS. Well, that is very gratifying, Mr. Sawhill. Will you recommend to the President that he offer to the country a conservation program immediately upon this announcement respecting the lifting of the embargo? It seems to me that is the critical moment and you may not yet have your law by then and if it came from anybody but the President it would not have the impact.

Mr. SAWHILL. I certainly think that any announcement following the embargo should include a call for conservation. We probably will not have the details of a legislative package to announce at that time but we can certainly talk about the need for continuing conservation and we intend to.

Senator JAVITS. Serve notice that the Federal Government policy will be to require where it can demand and can legislate and otherwise to ask for conservation on a priority basis because if you do not do it then and there, everybody will forget about it.

Mr. SAWHILL. Well, I could not agree with you more. I think that one of the things that we can clearly do and continue to do is to practice the leadership in the Federal Government for conservation. As you know, we have set a goal of a 7-percent energy reduction.

In the first 6 months of this fiscal year we have achieved over 23 percent and I think going on all through the Federal Government is a very major effort at conservation just to show the kind of leadership that we need to show in the Federal Government and that is one way of communicating to the rest of the country.

Senator JAVITS. You can also enlist the States in that and the localities.

Mr. SAWHILL. Yes. I have talked to a number of State governors. I was out to see the Governor of Minnesota the other day and we talked about conservation and the things they are doing. Texas is another State that has made a vigorous effort. As a matter of fact, we released last week a scorecard, if you will, showing how well different States had done in adopting conservation practices, just in a way to kind of encourage competition among States to adopt conservation programs.

Senator JAVITS. Well, unless the Federal Establishment and the President maintain a very stiff attitude on that, it is going to go right down the drain.

Mr. SAWHILL. Well, I can assure you that the FEO will maintain that.

Senator JAVITS. With not only carrots but sticks as well.

Mr. SAWHILL. Yes, sir.

Senator JAVITS. I believe you will find a very receptive audience here in the Congress to give legislation, if it is needed, in order to effect conservation, which will not put in this spot again.

Mr. SAWHILL. I think legislation will be needed.

Senator JAVITS. The greatest danger we face in the energy crisis now is euphoria—

Mr. SAWHILL. Yes.

Senator JAVITS [continuing]. And the cessation of the conservation activities.

I have just one other question. In order to conserve our own reserves of oil, fossil fuels, et cetera, what would you think of national prorationing? Have you studied that at all?

Mr. SAWHILL. I have not really studied that. Mr. Simon made a trip down to talk to the Texas Railroad Commission to really try to find out a little more about the way in which the States' conservation agencies have operated proration programs in the States. I think it would be a little premature for me to comment at this point on that.

Senator JAVITS. And also the matter of governmental exploration if private exploration is not available or too expensive on the Continental Shelf.

Mr. SAWHILL. I think this about the Continental Shelf. It is important not only that we drill but we drill where there is a more likely chance of finding oil and I do not think that I would oppose, as a matter of fact, I think it might be a good idea to have the Government go out there and collect information through seismic surveys and core hole drilling and stratigraphic testing, I can see the Government going out there and taking some of the initial steps to establish where the best structures are, where the most likely evidence of oil is, and then opening the Continental Shelf

up for bidding, and it could be we would want to go all the way to exploratory drilling, but I think we should seriously consider programs of this type.

Senator JAVITS. I hope very much you will and you will make recommendations both to the Congress and the President on that score. I think it would be very well received by the country.

Thank you, Mr. Chairman.

Chairman HUMPHREY. Thank you, Senator Javits. I think I should say to Senator Javits, prior to your coming here I expressed the same concerns, may I say, as the chairman of this subcommittee as you have, the euphoria that could grip us now and thereby leave us once again with serious energy problems and destroy much of the gains that have been made. I think we have made some real gains.

Mr. SAWHILL. I do, too.

Chairman HUMPHREY. And I think the agency has been very helpful in this and I hope this will continue.

Senator Javits, we have one of our colleagues from the other body here, Congressman Fraser. He had been in touch with me earlier about the rationing, the possibility of the rationing program. I brought this up, Congressman Fraser, on Tuesday and again this morning, the need of any rationing program not only to be published in the Federal Register for commentary but actually for some public discussion to that the interested parties can have a chance to be heard.

Obviously, any rationing program would have a very serious impact upon our total economy and I for one, while I felt there should be standby authority for rationing and hope we could avoid it and make the allocation system work, I have been dubious. I have to be honest with you, in January and February whether the allocation system could work successfully.

Congressman Fraser has some questions that he wants to ask. I have a number of questions but I am going to send them to you, Mr. Sawhill, to answer for the record. Mr. Sawhill, who is it that is here with you on the rationing?

Mr. SAWHILL. I have a member of our staff, Miss Judy Liersch, who is here with me today who will be available to provide written answers to your written questions.

Chairman HUMPHREY. We are going to send some questions over for written response because we want to have in this record some information on the rationing program and some of the questions that members of the subcommittee have developed. We will get them to you some time next week.¹

Mr. SAWHILL. Yes, sir. Thank you.

Chairman HUMPHREY. Congressman Fraser, I know you have some concerns here and we welcome you. I am sure Senator Javits would agree with me that we will give him unanimous consent to proceed.

Representative FRASER. Thank you, Mr. Chairman. I am sorry I was late. I was trying to keep a quorum in another committee.

Chairman HUMPHREY. That is our problem.

¹ See responses of Mr. Sawhill to additional written questions posed by Chairman Humphrey and Representative Fraser, p. 123 and p. 124, respectively.

Representative FRASER. Mr. Sawhill, one specific problem has been raised. The District of Columbia apparently will receive about 45,000 gallons a day less than it did in February.

Mr. SAWHILL. I do not believe that is correct.

Representative FRASER. The allocations—

Mr. SAWHILL. No. I am sure that is not correct. As a matter of fact, the District of Columbia will receive about 2 million gallons, I think, more than it did in February.

Representative FRASER. What was the February allocation? Do you have that there?

Mr. SAWHILL. It is 19.8 for March and 17.4 for February. The 17.4 was the initial allocation in February and 19.8 is the amount that has been allocated to the District in March, and, as a matter of fact, the District is very fortunate that it has one of the highest allocation fractions in the country, much higher than the State of New York and maybe even higher than Minnesota.

Representative FRASER. Minnesota came out pretty well in February. I am not sure about March.

Mr. SAWHILL. Minnesota and the District are very close in terms of their allocation fraction.

Representative FRASER. Does the increase account for the longer month, the additional days to be found in March?

Mr. SAWHILL. Yes. What we did was take 113.6 percent of the February 1974 supplies and made that allocation in March.

Now, here is the confusion. I do not mean to be misleading you; that is, that we made an emergency allocation to the District in February and if you take the initial allocation plus the emergency allocation and compare it to the March allocation, and divide them both by the number of days to get a per diem rate, it would appear that they are getting less per day in March than they got per day in February. However, not all of that emergency allocation that we directed to be made in February was made because it came right at the end of the month. A considerable amount of that, we think, is spilling over into March. How much of that, I really do not know. But I think that the District will be at least as well off and probably better off in March than it was in February.

Representative FRASER. Part of the problem in the District, apparently, is that a lot of the employees who work here, a lot of the employees of the Federal Government, are going to gasoline stations in the District.

Mr. SAWHILL. Yes, as well as at home. Yes, I recognize that.

Representative FRASER. And what we are really confronted with here is a regional consumption level, but with the District isolated for allocation purposes. Has there been any effort to try to regionalize the allocation so as to deal more realistically with this problem?

Mr. SAWHILL. We made a much higher allocation to the District than we did in Maryland or Virginia. I mean, higher in terms of a percentage allocation. So that the District is relatively better off than those two States.

Representative FRASER. Well, is this on the basis that, in fact, people are coming in from outside the District to get their gasoline?

Mr. SAWHILL. Yes.

Representative FRASER. Let me ask about something that has been rumored for a long time. We have had recent reports on it; that is, that there are a large number of wells that have been sunk which are currently capped. We have an estimate of some 8,000 capped wells that are on federally leased properties. Do you have any information that would verify that fact or disprove it?

Mr. SAWHILL. I do not have any count on the number of capped wells, which are not significant but as far as onshore, I suspect that there are a lot of capped wells because you only produce a well down to the point where it does not make any economic sense to produce it any more.

I do not think there are any capped wells that are capable of producing at a profit today, although I do not have any specific facts on that.

Representative FRASER. Well, given a choice, of course, it is better for a company to be using imported oil rather than to draw on its domestic supply, assuming they can keep their refineries functioning. That is the way the economic incentives function now. Am I right in that assumption?

Mr. SAWHILL. No. I think probably the opposite is true because we control the price of domestic crude at \$5.25 where the price of imported crude has tripled in the last year and is significantly higher than it was.

Representative FRASER. Let me turn to the price question. I think you have covered some of this. We have a report that your office has estimated that the peak price for gasoline may be around 65 cents a gallon.

Mr. SAWHILL. Well, I do not think—we cannot really foresee what the price is going to be with any degree of exactness because we do not know what is going to happen to world market prices. I said earlier that I thought prices would stabilize at about current levels, which are somewhat less than 65 cents. They are in the low fifties, I think, as a national average.

Representative FRASER. What was the average price a year ago? Do you have those figures?

Mr. SAWHILL. No. I guess we do not have it with us.

Representative FRASER. In the thirties, 35 cents?

Mr. SAWHILL. That is my recollection but that is just my own individual experience; 33 cents a year ago, 33 cents plus taxes.

Representative FRASER. And you use what figures now for current pricing on a comparable basis?

Mr. SAWHILL. 40 to 42 cents plus taxes, so it has gone up 7 or 8 cents in the last year.

Representative FRASER. That is an average price and you expect it to level out at the present price?

Mr. SAWHILL. Yes. This, as I say, is a very judgmental statement here that I am making because we do not know what is going to happen to world market prices.

Now, it is clear that if the embargo is lifted and we get more imported oil into this country that is going to mean more high priced oil to mix with our lower cost domestic oil. By the same token, we may see some reduction in the world prices and uncon-

trolled domestic prices as new supplies come onto the market, so I do not really foresee any major increases, but I think if I had made that same prediction a year ago I probably would have been wrong.

Representative FRASER. I would like to turn for a minute to the reports we have had on prospective rationing. The stories that I have heard suggest that if a rationing plan were to be instituted, it would consist of a fixed allocation to each driver or car-owner, perhaps with a markedly higher price established for purchases made through leaving the coupons negotiable.

Mr. SAWHILL. Yes. That is the plan we published.

Representative FRASER. Is that a rough description of the plan that has been under consideration?

Mr. SAWHILL. Yes. Everybody would get a certain number of coupons and then if you wanted more coupons, you could buy them from someone who did not want to use all their coupons.

Representative FRASER. I am wondering if consideration has been given to the extraordinary differences that exist among car owners with respect to how far they have to drive to work. For example, in our State we have people that drive 100 miles a day in some cases. There are not too many perhaps, but there are some who do drive that far in order to work. What happens to a person like that under the rationing plan?

Mr. SAWHILL. Well, I guess there would be several answers. One, they could use public transportation; two, car pool; or three, they could buy additional coupons from those in the State or elsewhere that did not have to travel so far.

Chairman HUMPHREY. He is talking about the iron range up there. The boys drive 50 to 55 miles morning and night and there is not anybody in between to supply them their coupons.

Mr. SAWHILL. They could buy them from somebody else down—

Chairman HUMPHREY. Delaplane, for example?

Mr. SAWHILL. And they could car pool.

Representative FRASER. Well, public transportation is not realistic. We have a lot of people, for example, that live out on farms who also work.

Mr. SAWHILL. I recognize that.

Representative FRASER. And they travel long distances. Car pooling will not work. Public transportation will not work.

Mr. SAWHILL. Car pooling might work.

Representative FRASER. It is unlikely because there is not that kind of concentration of workers. If it were to happen, it would be at such extraordinary inconvenience that it would not work.

Mr. SAWHILL. You know, the more I talk about rationing and think about it, the more I recognize it would be a very difficult plan to administer because, you know, the point you are making is a good one and I have had 30 or 40 people make very good points to me about rationing, about groups that need special exceptions, doctors and schoolteachers and traveling salesmen and—

Representative FRASER. And the handicapped.

Mr. SAWHILL. Handicapped, a whole host. Migrant workers that we were talking about earlier. Trying to administer a rationing

plan in this country, I think, would just be an extremely difficult thing to do and that is why we have been under criticism, but we have tried very hard to avoid rationing and, of course, with the prospect of the embargo ending, that would diminish it.

Representative FRASER. I am not really arguing the question of whether there should be rationing, but the Middle East settlement has not yet occurred.

Mr. SAWHILL. Correct.

Representative FRASER. And it may not come for some time.

Mr. SAWHILL. That is very possible.

Representative FRASER. And there exists the possibility that the embargo may be reintroduced.

Mr. SAWHILL. That is correct.

Representative FRASER. Is there not a way of devising a rationing plan on a contingency basis that, on the face of it, would have more equity than the fixed allocation system you are thinking of?

Mr. SAWHILL. I am sure there are possibilities. It is very difficult, though, as you begin to try to make exceptions for different groups. The plan we announced was a very simple plan, just treated everybody alike. We could create a plan that had *a, b, c, x*, all the other types of classifications we had in the Second World War. As you try to get into that type of system it gets more and more complex and more and more difficult to administer. That does not mean we cannot improve what we have got. I think we can. But I am also afraid of getting so complex that we have something we just cannot administer.

Chairman HUMPHREY. Why do you not take it over to the Defense Department and let them war game it?

Mr. SAWHILL. That is a possibility.

Chairman HUMPHREY. They have got all kinds of exercises over there.

Representative FRASER. Before I arrived, earlier in the hearings this morning, you apparently said that you would be looking seriously into expanding storage capacity as one hedge against difficulties.

Mr. SAWHILL. Yes.

Representative FRASER. Could you spell out what is under consideration with respect to increasing our ability to deal with short-term shortages, at least?

Mr. SAWHILL. I do not think we have anything that could deal with the short term. I think this was really more in the context of how as we look out toward 1980, what we can do to make us less vulnerable to the kind of cutoff we have had in the past several months. We could store oil. We could either build enormous underground storage tanks or store them in salt domes. Various methods.

What we have to do is look at the economics of storage as opposed to the economics of creating other energy supplies.

Another thing we could do, we could require all our utilities to have the capability of burning either coal or oil and if they were burning oil, we would require them to have a big pile of coal next to them so if we got cut off, they could immediately switch to coal.

Representative FRASER. Are there plans that are reaching any kind of final form yet?

Mr. SAWHILL. Not at that point. This is part of the whole effort we are making to develop a blueprint for Project Independence.

Representative FRASER. In the absence of any plans, is the thought to continue as before, assuming the embargo does result in an increased supply of crude, and I suppose some refined products? We were importing some refined products from abroad before, were we not?

Mr. SAWHILL. Yes, a considerable amount, because we do not have sufficient refinery capacity in this country.

Representative FRASER. On the assumption that the embargo ends, the flow of refined products would become easier at the same time that we get more crude, is that right?

Mr. SAWHILL. Yes, I would think so.

Representative FRASER. Well, are we to look forward to the next few years with gasoline and other refined stocks being kept at about the prevailing levels, the levels that prevailed, for example, a year or so ago?

Mr. SAWHILL. No.

Representative FRASER. In other words, are we going back to kind of a business as usual basis or are we going to start to build some kind of a hedge into our reserve capacity, our storage capacity?

Mr. SAWHILL. I would like to see us increase our storage, frankly. I would say this. There is disagreement among my staff about the storage because some feel that it is too expensive to store but this does protect us against vulnerability. As I look at our energy policy over the next several years it seems to me we have got to consider our vulnerability to cutoff, the economic tradeoffs we have to make in terms of should we bring on higher cost alternative sources like coal and oil shale as opposed to using lower-cost imports, and the environmental effects, and these are the three tradeoffs we have to keep making as we develop this energy policy.

Representative FRASER. One place, of course, to store oil is in the ground.

Mr. SAWHILL. Yes.

Representative FRASER. Provided it is ready to come on line as soon as the need exists.

Mr. SAWHILL. Yes.

Representative FRASER. But the difficulty with that concept is if we continue to have a shortage of refinery capacity, then that will not do us much good.

Mr. SAWHILL. That is correct.

Representative FRASER. If we go back to business as usual, why are we not going to see a continuation of the old pattern in which the refineries have been built abroad because of the advantageous tax situation?

Mr. SAWHILL. Clearly, our Government policy contributed, in part, to exporting our refinery capacity, but last spring we changed the mandatory oil import program and opened this country up to imports basically, so it is now much more attractive to build refineries.

Representative FRASER. Was that a suspension of quotas or a permanent end to them?

Mr. SAWHILL. It is a permanent end to quotas. There is a license fee system but not a quota system.

Representative FRASER. That is now settled.

Mr. SAWHILL. Yes.

Representative FRASER. Fixed end, no temporary aspect to it at all.

Mr. SAWHILL. No. That is permanent. Since that change actually, there have been a number of new refinery expansions announced. Now, some of them have been temporarily postponed because of the embargo. As a matter of fact, we are doing a catalogue of those right now to determine exactly where we stand.

Chairman HUMPHREY. Could you provide that for our record, Mr. Sawhill?

Mr. SAWHILL. Yes.

Chairman HUMPHREY. We are very keenly interested in the projected refinery developments and constructions and also what stage the construction is in, and so forth.

Mr. SAWHILL. Yes. We will make that available.

Chairman HUMPHREY. We would like to have it for this record.

Mr. SAWHILL. Yes.

[The following information was subsequently supplied for the record:]

PROJECTED REFINERY DEVELOPMENTS

The attached tables provide the information requested on the current status of planned additions to U.S. refining capacity.

Table 1 shows the Firm Additions to U.S. Refinery Capacity by year of initial start-up through 1978. Information for additions on this list was obtained by direct telephone contact with each company in late March and is the best information available. Planned additions totaling 2,193 MB/D fall into this firm category. Some of this capacity is undoubtedly based on imported crude from the Middle East, and these plans could be scaled down or delayed if the crude oil supply does not materialize. An additional 55 MB/D of capacity has also been announced which we have not yet confirmed.

Table 2 shows a list of Possible New U.S. Refineries which have been proposed. In total they add up to 2,370 MB/D of potential new capacity. Some of these projects are only under study and will undoubtedly be dropped due to lack of crude supply, siting obstacles, financial or other problems.

In addition to announced refinery expansions, refineries historically have been able to expand existing capacity by 1-2% per year through small bottleneck removal projects, improved operating and maintenance practices and other technological improvements.

Planned additions to U.S. refining capacity now somewhat exceed the levels announced by the Fall of 1973, following the April revision of import controls. This information indicates that U.S. refiners are proceeding with their refinery expansion plans despite the uncertainty of foreign crude oil availability.

TABLE 1.—FIRM ADDITIONS TO U.S. REFINERY CAPACITY

Refiner	Present capacity all units (thousand barrels per day)	Refinery expansion or new location	Operable				Total, additional 1974-78	Refiner projected capacity
			1974	1975	1976	1977-78		
Alabama Refinery Co.	15.0	Expansion—Theodore, Ala.	7.5					22.5
Allied Materials	4.3	Expansion—Stroud, Okla.	1.5					5.8
Amerada Hess	535.0	Expansion—St. Croix, VI	200.0					736.0
American Oil Co. (Amoco)	1,027.6	Expansion—Texas City	25.0					1,052.6
American Petrofina, Inc.	185.3	Expansion—Port Arthur, Tex.	7.2					192.5
Anderson-Pritchard (Apco)	37.0	Expansion—Cyril, Okla.	20.0					57.0
Arizona Fuels Corp.	20.5	Expansion—Roosevelt, Utah		8.0				32.0
Atlantic Richfield Co. (Arco)	815.5	Expansion—Fredonia, Ariz.		3.5				
Atlantic Richfield Co. (Arco)		Expansion—Carson, Calif.	20.0					
Atlantic Richfield Co. (Arco)		Expansion—Philadelphia		40.0				967.5
Charter Oil Co.	114.9	New—Washington State			92.0			
Charter Oil (Kern County (Refinery))	114.9	Expansion—Houston, Tex.		64.0				130.8
Clark Oil & Refinery	12.9	Expansion—Bakersfield, Calif.			3.0			
Coastal States Gas Corp.	107.0	Expansion—Hartford, Ill.	42.0					149.0
Dingman Oil Co.	161.1	Expansion—Corpus Christi	59.0					211.1
Douglas Oil Co. (Conoco)	2.5	Expansion—Bakersfield, Calif.	2.5					5.0
Exxon (Humble Oil & Refining)	35.0	Expansion—Paramount, Calif.		14.0				49.0
Famariss Oil and Refining	1,203.2	New—Livingston, N. Mex.	37.0		250.0	50.0		1,503.2
Gladieux Refining	5.0	Expansion—Ft. Wayne, Ind.		4.5				42.0
Hawaiian Independent Refining	5.5	Expansion—Barbers Point		30.0				10.0
Husky Oil Co.	40.0	Expansion—Salt Lake City				85.0		155.0
LaGloria Oil Co. (Texas Eastern)	45.8	Expansion—Tyler, Tex.	14.0					59.8
Midland Corp.	24.0	Expansion—Cushing, Okla.		15.0				39.0
Mobil Oil Corp.	17.7	Expansion—Various locations		15.0				32.7
	918.1					150.0		1,068.1

Murphy Oil Corp.....	121.5	Expansion—Meraux, La.....	20.0	141.5
Navajo Refining.....	20.9	Expansion—Artesia, N. Mex.....	9.0	29.9
Newhall, Refining.....	8.5	Expansion—Newhall, Calif.....	3.0	11.5
Pennzoil Co. (Atlas Processing).....	48.1	Expansion—Shreveport, La.....	26.5	74.6
Pioneer Refining Co.....		New—San Antonio, Tex.....	2.0	2.0
Pride Refining Co.....	14.1	Expansion—Abilene, Tex.....	23.5	37.6
Standard Oil of California (Socal).....	727.4	Expansion—Various locations.....	490.0	1,217.4
Standard Oil of Ohio.....	368.9	Expansion—Lima, Ohio.....	15.0	428.9
Standard Oil of Ohio (BP).....		Expansion—Marcus Hook.....	45.0	
Tesoro Petroleum.....	60.5	Expansion—Carrizo Springs, Tex.....	7.0	67.5
Texaco.....	1,091.0	Expansion—Lockport, Ill.....	25.0	1,316.0
Toro Oil (Ryder System).....		Expansion—Convent, La.....	200.0	
Vickers Petroleum.....	30.0	New—Port Allen, La.....	36.0	66.0
Witco Chemical.....	30.0	Expansion—Ardmore, Okla.....	30.0	60.0
National Cooperative Refining Association (NCRA).....	54.1	Expansion—Hammond, Ind.....	2.5	32.5
		Expansion—McPherson, Kans.....	8.0	62.1
Total.....			517.7	762.5
Current total U.S. refinery capacity.....			14,968.0	15,485.7
			16,248.2	16,651.2
Actual and projected capacity (million barrels per day).....			15,485.7	16,248.2
			16,651.2	17,161.2

Note.—The following additions have been announced but not yet confirmed by ERD:

Refiner	Location	Size (thousand barrels per day)
Howell Corp.....	Corpus Christi, Tex.....	20.0
Kerr-McGee.....	Wynnewood, Okla.....	35.0

TABLE 2.—POSSIBLE NEW U.S. REFINERIES

Company	Location	Size, barrels per day	Type refinery
Asbland Oil Co.....	Ohio River Valley.....	100,000	Full range.
Belcher Oil Co.....	Manatee County, Fla.....	200,000	Fuels.
Crown Central.....	Baltimore.....	100,000	Fuels/SNG.
Energy Co. of Alaska.....	North Pole, Alaska.....	15,000	Full range.
Energy Corp. of Louisiana.....	Reserve, La.....	200,000	Do.
Georgia Refining Co. 1.....	Brunswick, Ga.....	200,000	Fuels.
Hampton Roads Energy Co.....	Norfolk, Va.....	180,000	Do.
JOC Oil.....	Burlington, N.J.....	55,000	Fuels/SNG.
New England Petroleum.....	Oswego, N.Y.....	100,000	Do.
Northern Illinois Gas Co.; Gibbs Oil Co.....	Sanford, Maine.....	250,000	Do.
Odessa Refining Co.....	Mobile, Ala.....	120,000	Fuels.
Pacific Resources Inc.....	Portland, Ore.....	100,000	Do.
Pacific Resources Inc.; San Diego Gas & Electric.....	Carlsbad, Calif.....	100,000	Fuels/SNG.
Pittston Co.....	Eastport, Maine.....	250,000	-----
Refining Co. of Louisiana.....	Coastal parish.....	100,000	Fuels.
Shell Oil Co.....	Logan Township, N. J.....	200,000	Full range.
Steuart Petroleum Co.....	St. Mary's County, Md.....	100,000	Fuels/SNG.
Total.....	-----	2,370,000	-----

1 Incorporated by Fuels Desulfurization Inc.

Representative FRASER. Mr. Chairman, if it is agreeable, could we submit some additional questions in writing to the witness?

Chairman HUMPHREY. Yes. I think we have had the witness here long enough, he has been very patient with us this morning. I have a number of questions on the rationing that we will want to ask you.

Mr. SAWHILL. Fine.

Chairman HUMPHREY. And we would like to build it into the body of the record and I know Congressman Fraser has a number of them. He was in touch with me about this system. I tend to agree with Congressman Fraser that the necessity of whether we are going into rationing or not, hopefully not, that we really try to have talked it out enough ahead of time so we know what the pitfalls are.

Mr. SAWHILL. Yes.

Chairman HUMPHREY. And not just have it in the Federal Register. That alone is not enough. We really need some dialogue about it with a number of groups in the country as well as the Congress.

Mr. SAWHILL. Yes.

Chairman HUMPHREY. Is that all right with you, Congressman Fraser?

Representative FRASER. Yes.

Chairman HUMPHREY. Mr. Sawhill, I do want to thank you. Your job is an immense one and frankly, you have been doing, I think, a very credible job. We raise these questions not to be contrary but because these are matters that are brought to our attention.

We thank you very much, and your associates. I am sorry that we did not involve them more directly here. We appreciate your being here.

Mr. SAWHILL. Thank you very much.

Chairman HUMPHREY. You are free to go, thank you. Please don't forget the responses to our questions.

[The following information was subsequently supplied for the record:]

RESPONSE OF HON. JOHN C. SAWHILL TO ADDITIONAL WRITTEN QUESTIONS
POSED BY CHAIRMAN HUMPHREY

GASOLINE RATIONING CONTINGENCY PLAN

Question 1. There are several categories of people who might be ill served by the proposed gasoline rationing plan. For example, the plan calls for coupons to be picked up in the State in which the driver's license and authorization card were issued, is that not correct? What will happen to people who leave their home States for extended visits to other States? What about the traveling salesmen, the person on a temporary job assignment, and persons who must live with a relative in another State for a few months? It would be unrealistic to force these people to return to their homes for each allotment of gasoline coupons. Will you set up a way for such persons to get their coupons by mail?

Answer. As a result of public comment received in response to the January 16 Gasoline Rationing Contingency Plan, it became apparent that it was unrealistic to require all persons to apply for gasoline ration coupons in the state which issued their driver's license. Our current plan permits private users to obtain their coupons at their temporary residence when it is impractical to return to their home state. Such out-of-state applicants would be allowed to apply for coupons at the community's main post office or at other specially designated post offices (e.g., on or near military installations and college campuses). Out-of-state applicants would be required to complete an additional out-of-state applicant's form to facilitate FEO post audit procedures.

Question 2. The proposed rationing plan calls for coupons to have a useful life of 60 days. This would prevent accumulation of adequate coupons for vacation travel. Without a provision to permit coupon accumulation over a longer period, what will happen to the vacation plans of many Americans?

Answer. We believe that the prudent use of ration coupons will allow motorists to plan for vacation travel. Ration coupons will be issued in Series (A, B, C, etc.). A new series will become valid during each calendar month of rationing and will have a life of 60 days. As an example, Series A coupons could be used to buy gasoline in July and August, Series B coupons could be used in August and September. Therefore, a licensed driver would have two months accumulation of valid coupons at any one time for vacation planning. In addition, an open market for the sale of coupons will be encouraged, and coupons would be available to private users for vacation purposes. We also anticipate that resorts and organizations in vacation areas would purchase coupons on the open market and make them available to vacationers in their area or using their facilities. In general, a shortage of gasoline will necessitate curtailment of normal activities. Some vacations would be curtailed and some individuals would choose alternate locations or modes of travel to their vacations, with conservation of fuel in mind.

Question 3. The plan does not appear to provide for the needs of foreign visitors, particularly those being urged to visit the U.S.A. from Mexico and Canada. Are any plans in the works to take care of their needs?

Answer. FEO is taking care to consider the gasoline needs of our foreign visitors. Our current plan would utilize the visitor's passport as the authorizing document to allow foreign visitors to receive a basic allotment of gasoline ration coupons from the State set-aside. Foreign visitors would apply for coupons at a State Gasoline Rationing office and would be granted an allotment (which would be noted on their passport).

Canadian and Mexican visitors present a special problem because of the extent of non-tourist, cross-border travel between these countries and the United States, and because passports and visas are not required in all cases. These are matters which we will continue to explore. However, all foreign visitors will be allowed to purchase gasoline ration coupons on the open market.

Question 4. If most gasoline were allotted under rationing to basic necessities of commercial and personal life on a per-driver basis, don't you foresee that the price of additional gas coupons in trade would be a very volatile one and might well go to very high levels?

With more or less uniform coupon allotments for everybody, for instance, wouldn't the miners of West Virginia or the migratory farm workers have trouble getting enough coupons at any price to pursue their livelihoods?

Answer. The price of gasoline ration coupons in the resale market under

rationing will be determined in large measure by the severity of the gasoline shortage. The less severe the shortage the less the need to buy additional coupons and the greater the market that will be available for sale. However, at any possible level of shortage we believe that ration coupons will be available to persons willing to pay the price.

The problem with the resale market is that some persons will not be able to afford to pay the going price for the coupons. Our current plan makes provisions for categories of drivers with this problem, such as low-income persons and migrant workers, to apply to the State set-aside for an additional allotment of ration coupons to meet their essential needs.

Question 5. With any rationing system there would be some imbalance, at least locally, between the number of coupons and the amount of gasoline available. Wouldn't this mean that in some areas the value of coupons would slump suddenly because no more gas was available, while in others gas would go begging for lack of coupons?

Answer. A retail service outlet selling gasoline would be able to replenish his gasoline supplies only in the quantities sold to motorists as represented by coupons. This programmed approach to replenish would preclude a retail outlet from building inventories without corresponding sales. As a result, gas would flow to the locations at which coupons were being redeemed. In addition, the open market sale of coupons helps to balance the system in another way, by moving coupons from localities short on gasoline to localities short on coupons.

While the coupon market will tend to reduce discrepancies between gasoline and coupons, we recognize that supply will not always equal demand on a local level. FEO will closely monitor any imbalance and take steps to redistribute gasoline to where it is needed.

RESPONSE OF HON. JOHN C. SAWHILL TO ADDITIONAL WRITTEN QUESTIONS
POSED BY REPRESENTATIVE FRASER

Question 1. Mr. Sawhill, I remain concerned about our contingency planning for gasoline rationing. Reimposition of an Arab embargo is a real possibility in light of the volatile Mideast situation. Furthermore, it is difficult to calculate the public reaction to the Federal Government's apparent relaxation of conservation measures (for example, the resumption of Sunday gasoline sales), and the resultant rise in gasoline consumption. I would like to know whether you are continuing to revise the plan published in the January 16 *Federal Register*.

During the hearing, I asked what provision was being made in this contingency planning for workers who have to travel far to work and for whom car pooling and mass transit are not feasible alternatives. If I recall correctly, your reply was that this kind of problem pointed up the undesirability of rationing in general. I agree with you, but feel strongly that we must be ready in our contingency planning to meet just this kind of situation. I hope that we will be able to propose better alternatives than a return to the World War II review-process before local rationing boards, as outlined in your January 16 plan.

I would appreciate your comments on the following suggestion:

Additional, non-transferable coupons would be issued on the basis of work requirements and special needs where alternative transportation such as public transit or car pools is not available. These additional coupons would be issued on the basis of a declaration made by the applicant, with provision for subsequent audit or verification, civil penalties for excess coupons claimed, and criminal penalties for fraud. This procedure would allow the additional coupons to be issued by established agencies such as the Post Office with a special audit staff to be created.

Answer. Gasoline rationing.—Although the lifting of the Arab embargo has improved the fuel situation and we feel that gasoline rationing should only be implemented as a last resort, FEO has continued to develop and revise the contingency plan published in the *Federal Register* on January 16. Revisions have been based in large measure on public comments received in response to the January 16 publication.

The basic aim of our efforts has been to develop a plan which is administratively workable and offers maximum opportunities for gasoline users. To

this end, we developed a plan which applies general allocation rules for all private and commercial (including governmental) users. Discrepancies between basic allocations and exceptional gasoline needs (such as those of workers who travel long distances to work) could be resolved through the purchase of additional coupons on the open market. We believe that the resale market would satisfy the additional coupon needs of most gasoline users. Recognizing, however, that many persons would not have the financial resources available to purchase additional coupons, we would provide for a state set-aside of coupons to meet these hardship cases and others (such as the handicapped).

Use of additional, non-transferable coupons to alleviate hardships is a concept we have considered. We feel, however, that it would be extremely difficult to administer and enforce a regulation which would prohibit transfer of these coupons because of the resale market in which all coupons would be negotiable.

Question 2. At a news conference in Saint Paul on February 22, you explained that FEO's February gasoline redistribution program was designed to alleviate a 20 percent expected nationwide shortfall. In your testimony, you estimated that if the Arab embargo and production cutback were lifted, that we could expect supply to fall short of demand by only 2 to 4 percent. Does this seem a realistic estimate in view of recent relaxation of conservation measures, such as the resumption of Sunday gasoline sales?

Answer. Summer gasoline supplies.—Supply should not fall much short of demand this summer because available supplies will be higher due to higher import levels. In addition, we expect a sustained price increase of 30 percent over the pre-embargo price level. The consensus of several independent estimates of the impact of this price increase is that an associated decrease in demand of about 5 percent may be expected. It is difficult to include the impact of other conservation measures in that they may be embodied in the price effect. As a result, the 2-4 percent may be conservative.

Question 3. Could the Federal Energy Office furnish information, for the record of these hearings, on the status of planning to increase our reserve capacity in case of future cutoffs of foreign supply like that of last October?

Answer. Security storage.—The United States does not, at this time, have significant reserve storage capacity that can be classified as security storage. We have equated our domestic productive capacity to the security storage reserves that a number of countries, particularly European countries, maintain. Stocks that are reported by the Government and the American Petroleum Institute (API) are working stocks such as refinery and marketing inventories. These inventories are essential to the smooth operation of our oil industry. They would, of course, be available in an extreme emergency.

Project Independence will examine the advisability and economic cost of maintaining security storage. As an order of magnitude estimate, if the United States were to maintain ninety days security storage to offset an interruption of our imports of, say, five million barrels per day, the cost of establishing security storage, including the inventory of oil, would run about five billion dollars. (Salt dome storage and \$9 per barrel oil assumed.) To reach the ultimate objective of Project Independence, it may be necessary to have security storage as an integral part of our overall energy policy, but at this time it is not possible to indicate whether or not security storage will indeed be required.

Question 4. At the March 14 hearing, you stated that FEO had established a special impact office to deal with problems of disadvantaged groups and groups with special needs like migratory workers. How will this office handle problems like those of essential volunteer services, which have no priority under the current allocation system. These volunteers as you know, perform vital services, particularly in helping the elderly with medical visits and essential shopping. Volunteers also fill grave gaps in our school system. These people give their time and their cars for needed services. How will FEO's special impact office help them in the event of renewed severe shortages?

Answer. Special Impact Office.—The Special Impact Office has a variety of programs to deal with disadvantaged groups. For instance, the Office is conducting a study in conjunction with the Administration of Aging, Department of Health, Education and Welfare, to evaluate the impact of the energy shortage on volunteer workers. The results of this study will serve as the basis for the development of a contingency plan to alleviate hardships on volunteers in the event severe shortages again occur. Also, consideration is being given to a possible need to increase funding of programs such as Title III and Title IV of the Older Americans Act and those funded under ACTION, which provide

food and social services to the elderly. Such funding might be used to supplement limited resources and to insure the continuing reimbursement of the volunteer drivers upon whom these critical programs depend.

Question 5. You testified that production has been averaging about 100,000 barrels a day above FEO's forecast. You attributed the lessened impact of the embargo in early March to this increase in production as well as to leakages in the embargo and to the public's conservation effort. API figures for March 15 show gasoline production down 49,000 barrels a day from the preceding week and down 237,000 barrels a day from the corresponding week in 1973. Could you please clarify your reference to an increase over forecast production?

Answer. Crude oil production.—My testimony about higher production referred to increased production of domestic crude oil. Taking import levels into account, total crude oil available to refineries is still down over last year. As a result, refinery output by product is also still down.

Question 6. And finally, I would like to ask about FEO's January 15 price regulations, under which gasoline consignees and agents cannot pass on increased non-product costs. This situation, I have been told, is subjecting these gasoline middlemen to unfair competitive pressures from other jobbers who do not qualify under the regulations. Does FEO plan to remedy this apparent inequity?

Answer. Consignees and agents.—The Federal Energy Office recently took action to amend its January 15, 1974 Petroleum Allocation and Price Regulations under which gasoline consignees and agents were not permitted to pass on increased non-product costs. Effective April 1, 1974, a refiner was allowed to increase the commission paid to his consignee agents with respect to covered products, provided that the increase does not exceed 10% of the commission that was in effect on May 15, 1973. It is not mandatory that this increase in commissions be made by all refiners, as several have already increased commissions since January 1, 1974.

The amount of the commission is limited with respect to each product and each consignee agent up to 10% of the dollar amount of the commission paid to the consignee agent on that product on May 15, 1973. Thus, if a consignee agent received a commission of \$.02 per gallon on May 15, 1973, he may receive a commission of \$.022 per gallon in April 1974 from his refiner.

Chairman HUMPHREY. Congressman Fraser, I want to thank you for your coming over and submitting questions.

Representative FRASER. Thank you.

Chairman HUMPHREY. I have just been informed that our distinguished Secretary of the Treasury, Mr. Schultz, has announced his plans for resignation effective in the month of May. Secretary Shultz has been one of our most able public servants in this administration. He is a man of more conservative mind than some, a man that held the confidence of the Members of Congress because he was a man of complete integrity.

It is my hope now that if the newspaper stories that we read have any authenticity, namely, that Mr. Simon might be considered as his replacement, that we will have some continuity of leadership here in the Federal Energy Office. I have just said privately to Mr. John Sawhill that I hope he would be the new Director, not that I have any powers of appointment but the one thing we simply cannot take is to bring in new faces all the time in these top positions when the problems are so difficult and to master the structural organization is such a time-consuming assignment. So apparently, what we have been reading has come about, that Mr. Shultz is resigning. His loss to the Government will be very significant.

If Mr. Simon should succeed him, he is an extremely competent man. The working relationships between the Treasury Department and the Federal Energy Office could be strengthened if the Deputy,

Mr. Sawhill, were elevated to the position of leadership or responsibility.

I just say this as one who has been involved in this energy question since it became a serious problem for us here.

Now, having said that, we have with us Mr. Herbert Elish.

Senator JAVITS. Mr. Chairman, before you move on, may I say I wish to express my confidence in Mr. Sawhill and my confidence in Mr. Simon. Mr. Sawhill could certainly handle this job and Mr. Simon could certainly be Secretary of the Treasury. I think the President does have some problems and I would not wish to impair that freedom of action, but as these men—and there are many other Americans, I am sure that would be a great Secretary of the Treasury—but as both these men have uniquely—we are uniquely in a position to judge them, I think it is only fair that we should say what we have about them.

Thank you.

Chairman HUMPHREY. Gentlemen, you have been more patient, may I say, than even the first witness of the morning. The trouble with these hearings is that they sometimes become interesting and sometimes they do not and this was an interesting one today.

We have no way of knowing what participation we will have. Both Senator Javits and myself have a very heavy schedule today and I am sure that you also have one.

What I would like to do is to ask Mr. Elish to state very briefly, and I mean just that, even though we have not been brief here, what you have to tell us and then, Mr. Allvine, if you likewise would particularly focus your attention upon some of the marketing practices that I believe you studied and will share with us, and then Senator Javits, I know, wants to carry on a dialog or discussion with you, Mr. Elish, and possibly with Mr. Allvine. So we will go right ahead.

Mr. Elish, you proceed.

Mr. ELISH. Thank you, Senator. I will be very brief.

Chairman HUMPHREY. You, by the way, are the energy director of New York City.

Mr. ELISH. That is correct.

STATEMENT OF HON. HERBERT ELISH, DIRECTOR, NEW YORK CITY ENERGY OFFICE

Mr. ELISH. We have been living through what has been a crisis. Hopefully, it has become a problem, and less of a crisis, after the announcement of yesterday. While we understand the burdens of the Federal Energy Office in trying to develop a program as quickly as they have, what I would like to do today is to discuss some of the problems that we have seen develop that are really hurting the city of New York and the entire Northeast region, and that we think can be dealt with by the FEO and its regulations.

First, one of our major problems is the lack of information that we get from the Federal Energy Office and from the oil companies. We know, for example, is the gasoline situation that the Northeast area of the United States was getting less gasoline than the rest of the country in terms of its supply as measured against the normal

demand. That was for November and December. We do not really have the numbers for January and February but we know the lines in New York City and the major urban areas were longer and more difficult than any other place.

We just know this because we are in the streets all the time seeing what goes on.

One of the real problems, as Mr. Sawhill said this morning, is that New York City and the State of New York are going to be all right in the month of March, even though we are getting less on a daily basis of gasoline than we did in the month of February. This is a result of the emergency allocation being delivered in March. The problem is that we do not know how the suppliers are distributing that gasoline. There are no lines now in New York and it may just be that the suppliers are delivering not only the emergency allocation but the regular allocation on an accelerated basis, and I am very concerned about what is going to happen in the last 2 weeks of March.

I think there is a feeling of euphoria now which may be dissipated very quickly.

The FEO in New York City collects data from the suppliers and from the refiners as to their distribution practices. How much of the allocation are they giving to whom? We want that information because we have to plan. If we are going to have a problem at the end of March, we want to set up our own kind of mini rationing system for special cases such as doctors, where they would get a special allocation. We do not know whether to start to do it or not to start to do it because we cannot get the information.

We believe that that ought to be made available.

One thing that to me is disturbing is that the Federal Energy Office is not auditing the numbers that they get. Mr. Sawhill talks about the beginning of an auditing program and says it is going to start. Our information is that in the New York regional area they do not intend to start auditing until sometime in the summer.

Chairman HUMPHREY. May I say that one of the reasons for this testimony of Mr. Sawhill today is to get him on record on these things and we are going to check up. This is what we have a staff around here for, to see whether or not this auditing is taking place, and I want the staff to note this for the record, that we expect as members of this subcommittee that all of these disciplines that Mr. Sawhill mentioned as ways and means of checking into how the companies are behaving under the allocation program be checked and we will ask Mr. Cox and others here to look into that.

Mr. ELISH. Well, just as a matter of information, we have been told by people in the New York regional office that they are not going to start to do that until the summertime.

Chairman HUMPHREY. That is a long time.

Mr. ELISH. We have not been able to get the information that I have referred to. There is a question as to whether the Federal Energy Office people in New York at least believe that the information the oil companies give them is confidential information. Well, I do not understand why that should be the case these days, why that information should not be made available to the American

public and particularly to their representatives in cities such as New York.

And one particular part of the regulations is really very harmful to urban centers in general and New York City in particular. The allocation regulations provide that only agricultural services shall get 100 percent of their allocation no matter what the supply is. There is a provision which says that other emergency services, police, fire, health, and sanitation, should be 100 percent unless the companies have less than the 100 percent of their total supply. Which means, as I understand the regulations, they could decide to give us less than 100 percent for our police department, for our fire department. We use 22 million gallons of gasoline for essential services in New York City on an annual basis. In the month of February, one of the small suppliers decided to give only 80 percent of the requirements to the police department of New York City. We had to go to the State to get a portion of the State set-aside to make that up.

That seems to me not to be a reasonable kind of formula. I think that police, fire, sanitation and health services should be considered as important as agricultural services and I would hope that the committee would urge the Federal Energy Office to change those regulations, to provide 100 percent allocation for those essential services as well.

Senator JAVITS. May I just interrupt, Mr. Elish, to say I am your Senator and I will urge and I hope very much that our chairman, if he thinks it is desirable, will also—

Chairman HUMPHREY. Yes. I mentioned here to Mr. Cox, our staffman, that this information should be conveyed to the FEO. Is there somebody here from the FEO that remained? We will see that this transcript, by the way, gets to them.

Mr. ELISH. Thank you very much.

The next item I would like to mention briefly is the subject that Senator Javits questioned Mr. Sawhill about. That is the residual oil price problem in New York. Residual oil prices have gone up over 300 percent in the last 10 months. That oil heats 60 percent of our residences. We are now faced with building abandonments and the possibility of some pass-along of the fuel costs which will really hurt very low income people in the city.

On the 6th of February we requested the Federal Energy Office to take action with respect to that problem. We made some suggestions as to what could be done. I understand that it is a very difficult problem. It is not one that is easily solved but we have gotten no response whatsoever. And it seems to me that we should be told exactly what can be done, and what cannot be done.

We are now pretty much through with this heating season and the problem is something that New York City is going to have to live with for this year, but I certainly hope that we get some kind of help so that we move into the next winter with some kind of different kind of situation. It is really a lack of responsiveness in this area which is—

Chairman HUMPHREY. We will see that this information is conveyed to the Federal Energy Office and seek some response for you.

Mr. ELISH. Thank you very much.

The last item that I wish to mention is the impact of all of this on the environment. It seems to me that in the urban centers of the city we have made, and particularly in New York, great strides in cleaning up the air in the city. There is now an unfortunate use, I think, of the energy crisis to try to roll back those gains. I think that an effort, a massive effort is now going on to move the Federal air quality standards back, to stop enforcing the plans to reduce the use of automobiles which were originally put into the law to take care of the quality of the air. But now those plans are useful to save gasoline.

In New York City, if our transportation plan which would reduce the use of automobiles by one-half, if that was put into effect and if there was a requirement to put it into effect, we would save 183 million gallons of gasoline a year. So not only is there no reason to roll back those environmental requirements but now there is an added reason to enforce them, and I would hope that the Congress would take that into account in any legislation that would be passed.

In addition, the idea of starting to burn coal again in the middle of New York City, which is something that Consolidated Edison now wants to do to reduce prices by about 2 or 3 percent and foul the air, is something that we very strongly oppose. My only point on this is that this all has to be done with some care. We cannot just concentrate only on energy but there must be a requirement placed on the Federal Energy Office and our utilities to insure that air pollution devices are placed on facilities to insure that while we need as much energy as we can get in order to take care of minimum needs, that we cannot pay the price in terms of public health, and I am afraid that that is the direction in which we have been going and I would urge that that be looked into very carefully.

That summarizes the thrust of what I wanted to say.

Chairman HUMPHREY. We will place in the record your entire prepared statement. Mr. Elish, as you have prepared it for your testimony here today.

[The prepared statement of Mr. Elish follows:]

PREPARED STATEMENT OF HON. HERBERT ELISH

As Director of New York City's Energy Office, I would like to thank you for the opportunity to testify this morning.

The energy crisis has affected all segments of our nation. We have all had to learn too quickly that we can no longer take readily available, cheap energy for granted. What we have not yet learned is the root causes of this energy crisis, nor how we can best live with the limitations it imposes upon us.

This energy crisis has meant curtailment of Americans driving habits; adjustment to lower indoor temperatures in winter; acceptance of exorbitant prices for heating oil, gasoline, and electricity. Even if shortages of fuels were miraculously to disappear tomorrow, we would not have solved our energy problems. Our fuel costs have risen to a price many of us simply cannot afford.

Until we as a nation have access to the information that can tell us what is at the heart of this crisis, we will be attempting to mend Humpty Dumpty with a band-aid. We will at best patch up a few pieces. We won't solve the problems.

In many ways this energy crisis is a crisis of information. We in New York City cannot deal effectively with situations affecting millions of people when our only data come from gut feelings. Until we get data—reliable data—from those in the energy business, we can only hope: hope for warm weather, hope for voluntary cut backs of gasoline use, hope we get at least a fair share of fuel.

On the other hand, sound information would allow us to plan to accommodate shortages the magnitude of which we could confidently estimate. Much of the information we seek is already being collected by the Federal Energy Office. What we need is access.

Figures obtainable for November and December of 1973, when gasoline shortages were first becoming noticeable, show that in the Northeast supplies were well below those available elsewhere in the nation. In November, gasoline supplies in the Northeast were 9.4 percent below what demand was expected to be; for the entire U.S.; the shortage was 17.0 percent, the U.S. total shortage only 8.9 percent.

While these figures pre-date FEO's mandatory allocation program which went into effect in January, observation indicates that gasoline lines in the New York City area and other urban centers have been much longer than in other sections of the country. Furthermore, our figures show that in February, New York City's gasoline shortage was 15 percent. Unless FEO makes data available to us listing shortages elsewhere, we cannot be assured that we are even now receiving an equitable share of national gasoline supplies. If in fact we are not getting a fair allocation, we suggest that emergency supplies be made available from inventories now maintained by the companies. American Petroleum Institute figures show that throughout February, the gasoline companies were increasing inventories, presumably to build up supplies for summer. Being as summer is a period of heavy, non-essential driving, we would prefer to use small portion of those stocks now to lessen gas shortages that may curtail essential driving. First off, though, we need data to show if our local shortage is unfairly acute.

Access to FEO's Form 22 and 1000 listing individual supplier's monthly allocations and distributions would enable us to carefully monitor gasoline distribution within the City, to judge whether the supplies of gasoline we receive are proportional to the rest of the country, to ascertain expected gasoline shortfalls, and to determine how a supplier derived his allocation fraction. Access to FEO's weekly refinery reports (Form 1003) would provide continually up-dated information regarding the gasoline situation.

We have as yet not only been unable to obtain this information from the gasoline companies and FEO, but we also have been told by members of FEO that the Office itself does not audit gasoline supplier's forms to ensure that the companies have objectively set forth their supply situations, accurately calculated their allocation fractions, and made the proper distributions. This seems to us to put an inordinate amount of trust in those companies which have been accused of manufacturing the crisis in the first place.

The information contained in FEO's forms, if made available to us, naturally would be used with discretion, and solely for the purpose of planning how best to provide the City with the complex services it absolutely needs.

Those services, I might add, are jeopardized by current FEO gasoline regulations defining priority users and setting forth formulas for determining how much gasoline should be allocated to those users.

Priority users include emergency services, energy production, sanitation services, telecommunication services, public transportation services, cargo, freight, and mail hauling, and agricultural production. These users are provided with gasoline allocations based on their current fuel needs. Your local gas station has its allocation based on its sales in 1972. While for the most part essential services in New York City have received as much gasoline as necessary, FEO regulations are ambiguous and could lead to supply reductions for those services.

The allocation fraction—that percentage of the base amount to be received—under one interpretation of FEO regulations, could be the same for fire houses as it is for "Lucky's Gas and Car Wash" around the corner. If Lucky gets 80 percent of his March '72 supplies, our fire trucks could also get as little as 80 percent of their current need. In fact some New York City gasoline supply was sent this way in February. It was made up by an emergency allocation from the State set-aside. The one exception among priority users is agricultural production—that gets all it needs.

Of course food production is essential. But we think sanitation services, ambulances, police cars, and so on are essential too. We would like to see this discrepancy between agriculture and essential services needed in all communities corrected. Essential services must receive 100 percent of their needs.

The energy crisis has fostered all sorts of discrepancies. A major one we have attempted to bring before the FEO concerns price of residual fuel oil. Most of the residual oil used in this country is imported, and therefore unregulated in price. In general, the cost of residual oil has tripled since last year. This is a very grave problem for the Northeast and especially for New York City. Many of our landlords are faced with fuel costs that were unforeseen even six months ago and which in many cases mean the difference between making a profit or taking a loss. Unprofitable buildings may be abandoned, with no regard for tenants. Unfortunately fuel cost pass-throughs are not much of an answer to this problem, since buildings most likely to be abandoned are marginal housing stock, generally located in the poorest areas of the City.

Deputy FEO Administrator John Sawhill is reported to have told a meeting of Senators from New England on Tuesday that the price of residual oil in the Northeast is disproportionate to the nation as a whole and that FEO is conducting a study of price disparities. Sawhill was speaking mainly in terms of residual used by power plants to generate electricity. We are experiencing tremendous rises in the cost of our electricity in New York. We are also faced, however, with using the same fuel, at exorbitant prices, to provide 60 percent of the space heating in New York City. Heating in Philadelphia for example is only 7 percent residual oil. On this heating price question FEO assured us in New York as early as the beginning of February that it was studying the problem. We have had no response as of yet.

The double impact of heating oil cost increases and electricity cost increases may be devastating to New Yorkers. We have calculated that our heating cost rises are double the national increase. Consolidated Edison, our power-utility company for New York City and Westchester County, announced this week that for the average March bill Con Ed's 2.9 million electricity customers will pay more than \$20. For that average customer, about \$5.50 of his bill will be for fuel costs above the amount figured into the base rate. Although prices of residual used in Con Ed's plants are leveling off, or even dropping slightly, fuel prices are of great concern to millions of New Yorkers faced with staggering electric bills.

Con Ed has suggested that the solution to high fuel prices is to be allowed to burn coal at two of its plants. We find the wisdom of this solution to be highly questionable. On a rough basis, if we assume an average of \$12/barrel for residual oil for 1974, burning coal at both Con Ed's Arthur Kill and Ravenswood plants, would save 3.7 percent of total 1974 electric costs. If we use a figure of \$15/barrel of residual (the price Con Ed says it is now paying), the savings for using coal at both plants, or at Arthur Kill alone would be 5.9 percent and 2.0 percent respectively.

These figures do represent substantial savings in the aggregate. Their impact on the individual consumer, however, is not very much. A two percent savings, for example, would not even reduce the average customer's bill below \$20.

Furthermore, coal-burning would place a kind of "hidden tax" on New York City. New York City is already polluted. Even so, our air is much cleaner now than it was in 1969 when we began a City-wide air pollution monitoring network.

In the vicinity of Con Ed's Arthur Kill plant, we are currently meeting national primary air standards for sulfur oxide and particulates. Air quality in the area of the Ravenswood plant, however, continues to fail to meet primary standards designed to protect health.

Coal-burning is not the current answer to New York City's energy problems. It would endanger our citizens; it wouldn't do much about sky-rocketing costs of energy. Solutions must be reached on a nationwide basis. For the good of us all we must equalize throughout the nation the price of both fuels and of the loss of convenience. We must not and we need not sacrifice essentials such as emergency vehicles or agricultural production.

What we need now is to find out about this crisis. If we know why it happened, we can find solutions; if we know what our supplies are, we can adjust our plans to account for real shortages. A time of crisis is not a time to panic. By working together, we believe our problems, however difficult, can be overcome—by hard work, by compromise, and by reason.

Senator JAVITS. May I just say, Mr. Chairman, I will not ask any questions but I would like Mr. Elish to let me know whether his survey finds that the New York area service stations have been allocated, whether they are being fairly distributed to independent and franchised dealers, and generally your critique on how the wholesalers and the integrated companies are handling the supplies so that they get to them source; that is, to the point where the motorist gets them.

Mr. ELISH. Yes, I will do that.

Senator JAVITS. Thank you for your testimony and I noted what you said about coal. I heard you. We will watch it.

Chairman HUMPHREY. Have you seen any pattern at all of the large majors taking over the independents in your city?

Mr. ELISH. No, we really have not.

Chairman HUMPHREY. Mr. Allvine, please proceed.

Mr. ALLVINE. I will make my comments very brief.

Chairman HUMPHREY. You have a prepared statement?

**STATEMENT OF FRED C. ALLVINE, ASSOCIATE PROFESSOR OF
MARKETING, COLLEGE OF INDUSTRIAL MANAGEMENT, GEORGIA
INSTITUTE OF TECHNOLOGY**

Mr. ALLVINE. Yes. I think with the announcement yesterday the issue of rationing is no longer particularly relevant or all that interesting. I think we may get by our most urgent problems of allocation of petroleum products generally throughout society.

I would, however, state for the record that I have a considered feeling and judgment that we may emerge from our petroleum product shortages absent a viable independent private brand discount segment of the gasoline market. I was on an advisory panel to a commission that is going to report on the mandatory allocation system to Congress. I think that report is due tomorrow. And following the advisory meeting, we were discussing what the future of the independents seems to be. And it was the opinion, I think, pretty much of these different scholars and businessmen from different parts of our society that the future looks terribly bleak.

The mandatory system is not working to preserve competition as it was intended to do. There were two parts to it. One is the independents were to get a fair and equitable supply of the product.

Chairman HUMPHREY. That includes the franchised dealer, too.

Mr. ALLVINE. That is correct, Mr. Chairman. And secondly, that the independent franchised and private brand dealer was to get a fair and equitable price, and as the record is coming in to me and to others, the independents, the discounters, the major source of the price competition, are not getting their fair share of the product and in essence they are being priced out of existence.

I am afraid as we move from the transitional period back out of the shortage condition that we will find wholesale closing and failure of the private brand discount marketers at the same time the major oil companies are turning in unprecedented profits. The most competitive segment in terms of marketing of gasoline is going to pass into

oblivion. I think it is a major concern that you have expressed in the past, that this segment of the industry survive so that when we get over our energy crisis there will still be some semblance of competition in the marketing of gasoline to the public. I would hate to see the total industry moved to being dominated and controlled by eight to ten large vertically-integrated oil companies.

I heard your comments earlier about your concern as to what is taking place and I think there is due reason to be concerned about the preservation of competition. I think competition is being snuffed out. It is my judgment after studying the facts, that one of the reasons for the shortage was to curb competition in the marketplace and I think they have been very successful in doing that and the mandatory program does not seem to be helping.

That is just a quick overview of my assessment of what is happening.

Chairman HUMPHREY. We had considerable testimony here on Tuesday from the National Petroleum Retailers Association on the cancellation of franchises or the independent franchise dealer. One of the companies, I believe Mobil in Connecticut, has decided to go all the way on this and have company-owned stations and we are seeing a lot of it. In my home State 1,200 independent stations have gone out of business. Now, there is a natural turnoff but these are people that have actually gone out of business and not a turn-off where somebody has quite and somebody else has come in and picked up. And I feel very strongly that there is a pattern that is developing that is unhealthy for the competitive system; namely, concentration of vertical organization of the major companies taking more and more of the market. And there is another problem involved here, as I see it, too, and I would appreciate your comment. Some of the big stations are getting what they call gas and go. All you have is just come in for gasoline and the kind of service that many people have been accustomed to in the neighborhood, because filling station is generally—we have had our filling stations or our gasoline stations rather close. They have been called service stations for a reason, that they gave more than a product. They gave service. We are going to see a pattern develop here where the services that the customer was accustomed to receiving; namely, on repair or a new battery or new tires or all other things that go to help that family—the automobile and the family are tied together—to make that family a little happier and make that automobile a more useful vehicle, that those services are going to be eliminated, particularly as prices go up and as the prices on gasoline go up the margin of profit on each gallon grows. That is the interesting arithmetic here on this price situation.

Would you like to make any comment? Just a brief comment here then we are going to close off here.

Mr. ALVINE. Senator, I have no fear that we are going to have an ample supply of major brand service stations around when this thing shakes out. If you read the statements of the major oil companies under oath and elsewhere, they indicate from time to time, that we have perhaps two to three times the number of stations which can economically justified if put to the test of the marketplace. We have

far overbuilt our marketing system. It is terribly costly, inefficient, and archaic. It was in the stage of collapse before the petroleum product shortages. It was costing the petroleum companies a great deal of money. They rescued this terribly backward system from utter disaster through the petroleum shortages.

I predicted in 1972 the way things were going that we would have half the number of major brand service stations just by the normal forces of the marketplace finally coming to work in a system that had not been built in any sort of manner, shape, or form to stand the test of the marketplace. So I think you will see perhaps if the market mechanism works massive closing of unneeded stations, but I think there will be plenty of service stations around. I think that this is competition, this is the competitive process and it will be quite healthy in the process.

Chairman HUMPHREY. Well, we would love to keep you here. We have taken you all the way from Georgia Tech, which is a great school, brought you up here for a few minutes but we welcome you. You have a prepared statement and I want to include it as part of the record at this point.

[The prepared statement of Mr. Allvine follows:]

PREPARED STATEMENT OF FRED C. ALLVINE

Thank you for this invitation to appear before your committee as it considers The Gasoline Distribution System. Unfortunately, time did not permit me to prepare a comprehensive statement.

One subject of major interest today is the possibility of having to ration gasoline. It is my belief that rationing should be adopted as only a last resort. Perhaps rationing would solve certain types of problems, but it would in turn establish an entire new set of problems for the driver and against the public welfare.

One of the reasons presented for rationing is that it would eliminate the inequitable distribution of gasoline between and within states. It is extremely unfortunate that drivers in certain states and cities tend to have enough gasoline to get along with, while others have to queue at stations and fight for much more scarce supplies.

A report going to the Federal Trade Commission today on The Petroleum Allocation Act discusses the inequitable allocation of gasoline through the United States. This report indicates that the FEO is now coming to grips with the problem and that this 45 day old program seems to now be getting on track. As with most new organizations, the FEO had problems getting itself structured and functioning, but now appears to be better prepared to carry out its responsibility for more balanced distribution of gasoline throughout the United States.

Rationing of gasoline won't be necessary if some of the inequities in distribution can be worked out by the FEO, and the general level of public demand for gasoline can be retarded enough to keep within the industries constrained ability to produce gasoline. In other words, the general public must continue to conserve gasoline through a variety of techniques that have been frequently discussed. Perhaps one of the worst things that could happen would be for the public to conclude that the Energy Crisis is over and accelerate their use of gasoline.

As summer approaches, the demand for gasoline relative to supply could, for a period of time, become somewhat tighter. In fact, it will do so if the public obtains the impression from a government official that the Energy Crisis has passed. After the Arab embargo on oil is lifted, it will be 45 days before oil imports can be substantially increased. Furthermore, when the oil embargo is removed, it does not necessarily mean that, after a period of adjustment, automobile drivers will be able to purchase all the gasoline they want. Even

without the Arab embargo, some shortages were forecasted for peak periods of gasoline demand in 1974 and 1975 because of an inadequacy of refining capacity in the United States and presumably throughout the free world. Remember, last summer before the Arab embargo, U.S. refineries were unable to produce enough gasoline to keep up with demand. However, there is a possibility that the rapid increase in the price of gasoline over the past nine months will bring demand and supply into balance when the embargo ends.

Some of the more obvious problems with gasoline rationing include the cost of a huge bureaucratic structure required to implement such a program, the difficulties in designing a fair and equitable rationing system—drivers vary greatly in terms of their essential needs for gasoline, the organization of a “white market” where holders of unneeded rationing tickets can sell them, and finally, the inevitable appearance of an illegal “black market” in rationing tickets.

What worries me still more about gasoline rationing is its potential for long-term injury to competition in the selling of gasoline to the public. At the present time, the private-brand, independent gasoline marketers are fighting to stay alive, and their situation is growing more and more precarious. Such independents, until the petroleum product shortage, were the major source of competition in the marketing of gasoline to the public. They pioneered many of the new developments in gasoline marketing and, more importantly, sold gasoline at substantial discounts of 3¢ to 5¢ per gallon less than the major brand price of gasoline. These independent discounts are one of the major victims of the gasoline shortage. Supplies of gasoline to independents have, in many cases, been sharply cut, and what supplies they are receiving are terribly expensive. This combination of circumstances has put these independents in a noncompetitive position relative to their major brand competitors.

It is largely because of the tight supply situation that the independents can sell at higher prices than their major brand competitors, and this is keeping many of them from going out of business. If rationing was implemented, in particular the proposal of the Administration, I would predict widespread failure of the unbranded, independent gasoline marketers. The reason for believing that rationing would be disastrous to this segment of the market is that rationing would have the effect of balancing supply with demand. Many more automobile drivers would take what rationing coupons they have and look for the better price. Due to the “upside-down economics” of shortage, one-time customers of the unbranded, independents will find higher prices at many of their stations and cease to purchase from the independents. With a further loss of sales, many private-brand, independent gasoline marketers will be forced into bankruptcy. Government policy during the unusual conditions of shortages should continue to try to preserve the structure of competition.

The Emergency Petroleum Allocation Act of 1973 had as one of its objectives: “Preservation of a sound and competitive petroleum industry with particular emphasis on protecting the market share and competitive viability of the independent sector of the industry.”

More specifically, Section (4)(b)(1)(F) of the Act states that there shall be: “equitable distribution of . . . refined products at equitable prices among all . . . sectors of the petroleum industry, including independent refiners, small refiners, nonbranded independent marketers, branded independent marketers, and among all users;”

So far the FEO has failed to achieve “an equitable distribution of refined products at equitable prices” to the nonbranded independent marketers as required by the Act.

Many independents have informed me in the past couple of weeks that they have not received their fair share allocations of gasoline. For example, yesterday I received an urgent call from the executive secretary of a trade association with 80 independent, private-brand marketers in California. He stated that many of his 80 members are getting less than 50 to 60 percent of their 1972 base period supply. In contrast, he reported that Mobil is giving 97 percent allocations to its dealers, Chevron 90 percent, Gulf 90 percent, Exxon 83 percent, Phillips 75 percent, and Texaco 71 percent. There appears in many cases to be a real reluctance on the part of the FEO to force the major oil companies to share the shortage as required by law. Frequently, the explanation received by independents from the FEO administration is that it takes

time to get things straightened out. Just like the medical patient requiring oxygen, the independents need supply now and not tomorrow after they have succumb.

The problem of the independent, private-brand marketer obtaining supply is complicated by the price that he has to pay for gasoline. Before the petroleum product shortages, the whole price that independents paid for unbranded gasoline was 12¢ to 14¢ per gallon less than the normal major brand price of gasoline at the pump. Since the petroleum product shortages, many independents have seen their wholesale buying price narrow to within 6¢ to 7¢ of the major brand retail price. Furthermore, there are many independents that are buying unbranded gasoline at wholesale that is as expensive as the major brand dealers are selling to their retail customers. It is because of the extremely high and inequitable cost of product to the independent, private-brand marketer that so many are being forced to sell at prices considerably above their major brand competitors. The cost of private-brand marketing is considerably less than branded marketing, yet many independents are compelled to sell at higher prices because of the cost of their supplies. The equitable pricing of refined product called for by the Act is not occurring. The regulations must be redesigned to permit the independent, private-brand marketers to purchase their supplies at equitable prices.

The inequitable pricing of supplies to the independent is a direct consequence of a decision by the Cost of Living Council in 1973 to de-regulate the price of oil produced from stripper wells and the price of newly discovered oil. As a consequence, the uncontrolled price of oil has climbed to over \$10 per barrel, while price-controlled oil sells for around \$5.25. Since the independent refineries purchase a larger proportion of their supplies from stripper production, their cost of new material has climbed relatively to the major oil companies. In addition, independent refineries have been compelled to import increasing quantities of oil after costing \$10 or more per barrel.

One way to improve the situation is to have domestic oil all selling at one price—somewhere between \$6–\$7 per barrel. The uncontrolled price of stripper production has increased by approximately 200 percent in a year. The logic of the Cost of Living Council's decision to de-control the price of stripper well production can be questioned. It has certainly resulted in a huge windfall profit to the owners of stripper wells, and has driven up to noncompetitive levels the price of much of the crude oil purchased by independent refineries. The limited increase in stripper production that is expected does not appear to warrant the high de-regulated prices.

Releasing the price of new oil can also be questioned. One of the reasons for the high price of new oil is the bonus bidding procedure employed by the Federal Government in leasing government land for oil and gas exploration and production. The administration has only leased 3 percent of the outer continental shelf. During 1972 and 1973, approximately five billion dollars was paid to the Federal Government for hunting licenses. Had this money instead been invested in drilling projects, almost twice the number of wells could have been drilled in the United States.

Bonus bidding procedures drive up the cost of oil and, in turn, forces the government into a position of de-controlling the price of new oil. The bonus bidding procedures might well be replaced by a "performance bidding" program similar to that employed by England in leasing the North Seas area it controlled for oil exploration and production. This practically eliminated the up-front money and has resulted in rapid development of North Sea oil production.

If the Administration abandoned its two-tier pricing structure for crude oil, then one major factor contributing to the high price of product to the independents would be eliminated. The other problem affecting the cost of oil to the independents is the high price of foreign oil. If this condition persists, then some program might be developed to even out the proportion of domestic and imported oil processed by the independent refineries and the major oil companies.

Chairman HUMPHREY. Senator Javits and I have a King waiting for us downstairs.

Senator JAVITS. Mr. Chairman, I would like to tell Professor Allvine, to justify his trip, that as the ranking member of the Select Committee on Small Business, I am going to see if I can get an inquiry started into this whole gas station business, both from the point of view of the independent man and how he fares and from what Chairman Humphrey has said about service.

Mr. ALLVINE. Thank you.

Chairman HUMPHREY. Thank you. The subcommittee stands adjourned.

[Whereupon, at 1 p.m., the subcommittee adjourned, subject to the call of the Chair.]

