

PRELIMINARY REPORT OF PROGRESS

BY THE CHAIRMAN

OF THE NATIONAL PETROLEUM COUNCIL'S
COMMITTEE ON PETROLEUM REFINING CAPACITY

JULY 29, 1948

CHAIRMAN: Robert E. Wilson

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On April 22, 1948, Mr. Walter S. Hallanan reactivated the Committee on Petroleum Refining Capacity, which had previously reported to the Council on July 8, 1947. Mr. Hallanan requested that the committee "ascertain the facts and report to the Council on the status of refinery capacity in the United States."

The previous report of the committee estimated 5,648,100 barrels as the total daily capacity of the industry as of June 30, 1947, and gave figures for anticipated additions to that capacity by quarters through June 30, 1948. On the basis of these figures (and after deducting the capacity which was to be shutdown as it was replaced by new capacity) the capacity as of June 30, 1948, was estimated to be 5,820,900 barrels per day.

Since this estimate extended nearly three months beyond the date of reappointment of the committee and since both the API and the Bureau of Mines had been doing their best to keep up to date with changes in refinery capacity and construction plans, the chairman was inclined to doubt the need for an additional survey last spring and carried on considerable discussion of the matter with Mr. Max Ball and Mr. Fred Van Covern of the API. Mr. Van Covern expressed the opinion that he could supply reasonably accurate figures for refinery capacity throughout the remainder of 1948 without making a

new and independent survey. In view of this and the fact that refinery capacity figures are always uncertain since they vary considerably with the type of crude run, the type of products made, etc., Mr. Ball eventually concurred in the thought that a new survey might well be postponed until this coming fall.

Mr. Ball raised the question, however, as to the desirability of classifying refinery capacity into "economic" and "uneconomic" capacity. Your chairman is of the opinion that such a classification could not be accurate and would not serve any particularly useful purpose. The increase in the demand for, and the price of, heating oils has made the operation of even small skimming plants profitable if they are reasonably well located relative to crude supplies and has brought into operation practically all operable capacity including some which had been shut down for several years. Hence such capacity would have to be considered "economic" under present conditions. However, the borderline between economic and uneconomic would switch rapidly with changing conditions, and if such a classification could be made accurately at a given time, it would be inaccurate as soon as there was a change in conditions.

The committee was advised by letter of the principal points raised in the correspondence with Messrs. Ball and Van Covern and concurred with the chairman's view that it was not worth while to try to distinguish between economic and uneconomic capacity or to make a new survey at that time but agreed that it would be desirable to bring these figures up to date by making a survey starting in September which would cover anticipated expansion throughout the year 1949.

However, in order to give the Council the benefit of the latest information available to the API, the chairman asked Mr. Van Covern to estimate refinery capacity by districts for December 31, 1947, June 30, 1948, and December 31, 1948, based on the best information available to him. The figures he submitted are as follows:

ESTIMATED DAILY REFINERY CAPACITY - U. S.
(Barrels)

	<u>Dec. 31, 1947</u>	<u>June 30, 1948</u>	<u>Dec. 31, 1948</u>
District I	953,000	953,000	960,000
District II	1,521,000	1,522,000	1,576,000
District III	2,125,000	2,154,000	2,164,000
District IV	175,000	175,000	178,000
District V	<u>1,041,000</u>	<u>1,041,000</u>	<u>1,041,000</u>
United States	5,815,000	5,845,000	5,919,000

It will be noted that the capacity figure for June 30, 1948, is less than half of one percent higher than that estimated for that date in the previous report of the committee. The projected increase for the second half of this year is slightly under 1½ percent but is, of course, not based on a complete survey. Mr. Van Covern expressed the opinion that all these over-all capacity figures may well be about one percent on the low side because of various expedients which companies find it possible to adopt under conditions when maximum throughput is sought more or less regardless of cost.

Recent API Weekly Reports show refinery runs averaging between 98 and 99 percent of estimated capacity as compared with about 92 percent a year ago. It must be recalled that refinery capacity figures

represent estimated average calendar day capacity for estimated average yields of products, and it is quite possible that over a period of a few weeks total crude runs may exceed estimated capacity, especially if shutdowns are less than average.

Regardless of this, it is quite apparent that the expansion of refinery throughput which has recently set new high records almost every month must flatten off from now on. The industry is today operating even its relatively inefficient refining units substantially at capacity for the first time since World War I. In spite of almost superhuman efforts to expand refinery capacity, in the face of high construction costs and steel shortages, it appears that refinery capacity is likely to be a serious bottle-neck during the next twelve months if the increase in demand continues.

It must be emphasized that this does not represent a report of the committee except to the extent that their views are specifically referred to herein. If the Council so desires, the committee will undertake a new survey beginning in September to cover projected expansion by quarters through the year 1949.

Respectfully submitted,

ROBERT E. WILSON, CHAIRMAN