

REPORT OF  
NATIONAL PETROLEUM COUNCIL COMMITTEE  
on  
VOLUNTARY PETROLEUM ALLOCATION AGREEMENTS

The individual members of the National Petroleum Council Committee, appointed by Mr. Walter S. Hallanan on January 9, have given much individual as well as collective thought to the assignment placed before the Committee as outlined in Mr. J. A. Krug's letter of January 7. That communication requested the Committee to consider and report such recommendations as it deems appropriate as to actions including, but not limited to, plans and voluntary agreements that can be made by industry and/or government under Public Law 395 with respect to petroleum including petroleum products and natural gas and petroleum transportation facilities and equipment, to carry out the purposes of said law.

After individual and group consideration, the Committee met January 21 and reviewed the problem. A statement of the findings and recommendations of the Committee follows.

The first responsibility of the Committee is to summarize the nature of the current supply situation, particularly with respect to middle distillates, including kerosene, diesel fuel and distillate fuels Nos. 1 through 4 and to designate the nature and location of problems now confronting the industry.

The current problems before the oil industry stem from the rapid growth in the demand for all petroleum products and in particular for middle distillates. An analysis of the problem of supply or distribution of petroleum products, therefore, must consider the patterns of demand growth for the several products in the different geographical areas of the country. It is believed that the clearest explanation for the extraordinary demands can be seen from the following

comparison of the increases in the numbers of petroleum consumption units.

Growth of Petroleum Consuming Units  
1941 - 1946 and Estimated 1947

<u>Consumption Units In Use</u>	<u>1941</u>	<u>1946</u>	<u>1947</u>	1947	% Increase	
				<u>% Increase Over 1946</u>	<u>Since 1941</u>	<u>1946</u>
Passenger Cars (Thous.)	26,713	26,901	28,416	5.6	.7	6.4
Trucks & Buses (Thous.)	4,682	5,680	6,000	5.6	21.3	28.2
Tractors (Thous.)	1,783	2,672	2,844	6.4	49.9	59.5
Space Heaters (Thous.)	2,000	3,035	4,250	40.0	51.8	112.5
Oil Burners (Thous.)	2,269	2,673	3,200	19.7	17.8	41.0
Diesel Locomotives-Units	1,032	4,196	5,281	25.9	306.6	411.7

The first three types of consumption units represent a major portion of the gasoline market. The second three classifications of consumption units constitute the major portion of the middle distillate market. It is readily apparent why there is a winter problem in the oil industry in some parts of the country.

To meet the requirements of the market, the various units of the industry have competed vigorously, each trying to bring greater quantities of finished products to the consumer. Such competitive urge we believe to be largely responsible for the remarkable expansion efforts revealed by the following table. Few major industries have been able to approach the substantial gains shown over 1941.

Expansion of Petroleum Supplies Consumed  
1941 - 1946 and Estimated 1947  
(In 000's B/D)

	<u>1941</u>	<u>1946</u>	<u>1947</u>	1947	% Increase	
				<u>% Increase Over 1946</u>	<u>Since 1941</u>	<u>1946</u>
Gasoline	1,903	2,138	2,289	7.1	12.3	20.3
Kerosene	199	268	297	10.8	34.7	49.2
Distillates	520	746	877	17.6	43.5	68.7
Residual Fuel	1,089	1,333	1,436	7.7	22.4	31.9
Crude Runs to Stills	3,861	4,740	5,047	6.5	22.8	30.7

Comparing the two tables, the expansion of crude runs in 1946 over 1941 was adequate to maintain a relatively easy supply situation throughout that year. The distillate-consuming units continued their rapid expansion during 1947. The expansion of the oil industry accomplished during the year was more than adequate to meet the growth of the market on all products except distillates. However, the phenomenal growth of demand for these products, made worse by the fact that it is largely concentrated in the five winter months, forced a diversion of refinery output from gasoline and other products and was the underlying cause of tight supply conditions for all major products which developed during 1947.

The unusual expansion in distillate demand has taken place largely in the belt of cold states extending from the Rocky Mountains east to the Atlantic Ocean. Crude production in this section is relatively low and has actually declined since 1941. Refineries located therein have had to depend to an increasing extent upon crude oil transported from remote producing areas. As the output of the refineries located in this cold belt is not adequate to meet total requirements, it also became necessary to transport finished products from remote refinery centers to help serve this need. With the shortage of construction materials, it has been impossible to build the necessary additional transportation, refining and distributing facilities as rapidly as the market expanded. Throughout most of the year badly needed tankers owned by the government lay idle while legislative difficulties and other factors delayed putting them into service. However, the oil industry, through the adoption of many unusual expedients, has made and is making substantial strides toward meeting full requirements, but this objective has obviously not yet been accomplished.

Today's problems are most acute in that section of the country north of the Missouri and Ohio Rivers and in the Atlantic States. Even within this tight supply belt, there are many local areas where supply problems are not encountered. In other areas the intensity of the problem varies considerably. The Middle West, which first recognized the problem, is closer to solving it than the East, where tanker shortages and a severe winter have accentuated it. The rate of growth of demand has not been constant in the various communities while facilities to serve the markets are much more adequate in some areas than in others.

Corrective measures must recognize the different nature of the problems in different areas. Additional tankers will be needed to partially close the gap between supply and demand in some localities. In others, shippers via pipe lines will have to give preference to distillate movement while still other communities will require additional tank cars, barges, or truck transports. The multitudinous problems cannot be solved on a national scale or by a national committee, except as it lays down general principles. It must ever be borne in mind that no action that this Committee, or any other agency, can propose will increase the over-all supply of petroleum in a sufficiently short time period to eliminate the existence of the many local problems. These problems must be attacked promptly, area by area, on a decentralized basis.

The Committee feels strongly that care must be exercised that any steps taken be designed in such a manner as to preserve the incentives and initiative of all suppliers. The thousands of individual units of the industry, stimulated by these incentives, have adopted many unique but successful practices that have resulted in

substantially increasing supplies available. The industry is bringing to the market the greatest quantity of petroleum products in its history and cost factors have been largely disregarded. The conditions which have made possible the accomplishments to date must be preserved so far as possible, even though temporary emergency measures will be necessary in many local areas.

### Recommendations

The Committee has considered all possible courses of action which in its judgment should tend to:

- a. Increase supplies of middle distillates
- b. Insure equitable distribution of supplies, and
- c. Temporarily reduce the demand

Attaining all three of these objectives is essential to reducing consumer hardships; therefore, Committee has attempted to make definite assignment of responsibility for each of the following suggested courses of action.

### Steps to Increase Supply

1. The State regulatory commissions should be urged to establish allowable crude oil production equal to maximum efficient rates in each state east of the Rocky Mountains. If there be additional producible crude oil under M.E.R. and the bottleneck is transportation or loading facilities, the industry should adopt every expedient to make such facilities promptly available.
2. Refineries operating east of the Rocky Mountains should maximize crude runs during the next 60 days to the extent crude oil can be made available even though such action may reduce substantially crude oil inventories. The recent high level of refinery operations should be maintained during the next 60 days if at all possible.

3. Refineries operating east of the Rocky Mountains should review refinery yields and further adjust upward the yield of distillates at the expense of gasoline during the next 60 days. The Committee recognizes that this action will largely shift the supply problem from middle distillates to gasoline, but believes that it is in public interest to exert still greater effort toward meeting home heating requirements rather than meeting gasoline requirements.
4. The above three recommendations concerning supply are of a short range nature. The oil industry appreciates the necessity of continuing extraordinary efforts to meet the growth of demand anticipated during the years to come. The petroleum industry has never had to be urged to expand to meet prospective demand - all it has ever asked were the necessary materials. It is recommended therefore that the National Petroleum Council appoint a standing committee of oil men to work with Department of Commerce and the steel industry to insure that the various branches of the oil industry receive allotments of steel which are commensurate with their responsibilities of developing and transporting their products in keeping with present and future requirements. Such allotments are essential if the oil industry is to drill and develop additional sources of crude oil, build adequate pipe lines, tank cars, barges and other transportation facilities, refining capacity, and distribute sufficient petroleum products to meet the continuing expansion of the market. Adequate petroleum supplies are an essential element to the operation and growth of all industries. Unless the oil industry obtains an increased share of steel and other essential materials, the development of the nation's entire economy will be retarded.

5. All petroleum importers should continue to exert maximum effort to import crude oil and petroleum products to the extent necessary to supplement domestic supplies.

Insuring Equitable Distribution of Supplies

6. The problem of tanker capacity to transport needed supplies to the East Coast has constituted a major issue during recent months before numerous industry and Congressional committees. This Committee can recommend nothing beyond steps previously outlined. We believe the seriousness of the problem is recognized and urge the greatest possible speed on the part of industry and government to increase the availability of tankers.
7. Many oil companies have already taken emergency steps to substitute tank trucks for tank cars, freeing tank cars for long hauls. This practice must be continued and extended wherever possible. To prevent equipment tie-up over weekends and holidays, oil companies should adopt seven-day week loading and unloading schedules for the next 60 days.
8. Many exchanges and short term loans of products between individual companies have been worked out in recent months in an effort to save transportation. These should be continued and further extended by individual company efforts.
9. It is believed that practically all petroleum supplying companies have individually adopted a policy of distributing equitably among the various categories of customers and channels of distribution, all available supplies of fuel oils. This has been particularly urged by the recent report of the Senate Small Business Committee. If there remain any suppliers or distributors at any level who have not adopted such a policy, they are urged to do so at once.

10. The handling of hardship cases induced by the short supply situation should be treated at the local level by those who understand it best. Accordingly it is recommended that all action to alleviate hardship cases be handled by state and community committees.
11. Consumption of middle distillates must be reduced. The individual consumer must bring this about. All consumers should practice oil conservation. A complete pattern of suitable measures has been offered to the domestic consumer by the oil industry. Certainly the most prominent means of accomplishing this objective is carrying lower temperatures in all buildings where oil is used for radiation purposes. Comparable steps must be introduced by commercial and industrial users and by military and other governmental agencies. The oil industry and each individual company of the industry must give wide publicity to the necessity of the consumer reducing his needs. It is believed that the tank wagon driver affords a most effective means of disseminating this message. The tank wagon drivers as well as other representatives of the industry who contact the public should be schooled in this need.
12. All consumers both domestic and industrial who have alternate or standby heating equipment which could use other fuels should be urged to utilize such facilities.
13. The rate of growth of demand for middle distillates must be checked. Since there is an over-all short supply of middle distillates, placing additional demands against the industry cannot but aggravate an already acute situation.
14. The next 60 days must be characterized as a period of inventory reduction of middle distillates among all consumers. The home owner should not request that delivery be made as long as his

supply of fuel oil on hand is in excess of two weeks' requirements. The large consumer, buying in tank car quantities, should observe the same inventory limitation. The governmental agencies including the Military, should limit inventories and to the extent possible serve current needs by inventory depletion. In local communities where supply is not adequate to meet total requirements, it is recommended that quantities delivered be limited as may be necessary to spread available quantities as equitably as possible among all users. In some areas limiting deliveries to 30 days' requirements may be adequate, while in others it may be necessary to restrict delivery to time periods of substantially shorter duration. This will necessitate the temporary abandonment of the keep-filled system of delivery now practiced by many distributors in substantial parts of the market.

Many states in the trouble zone have established state coordinators or committees to deal with current problems of distribution of burning oils. In some, such organization is established as a state agency and in others it is entirely a citizens' committee. Parallel structures are to be found in many local communities within the states. All members of the industry should instruct their representatives to cooperate with these agencies at the local level in their efforts to relieve legitimate hardship cases as quickly as possible. The oil companies distributing in each such local area must recognize the necessity of sharing the responsibility of meeting emergency deliveries. Such committees should insure that wherever possible, emergency cases be supplied a quantity of oil adequate for a maximum of two weeks' consumption, contingent upon the customer's

inability to secure supplies from his regular source, contingent upon his inability to substitute alternate fuels, and contingent upon his ability to receive, store, and pay for such merchandise.

16. It is the Committee's understanding that exports of petroleum products have been again placed on the restricted list. Export licenses are now subject to review and approval by the Department of Commerce. It is believed that this system should be continued and that exports be limited to the extent possible consistent with over-all necessities of our international relationships.
17. The above series of recommendations for meeting the current heavy demand for middle distillates are recognized by this Committee as creating future shortages of gasoline. It is believed essential, therefore, the the gasoline consumer, as well as the fuel oil consumer, be urged to adopt conservation measures. Wide publicity should be given by the oil companies to gasoline consumers requesting them to curtail their requirements until the over-all shortage of petroleum products is eliminated. Specifically, a great deal can be done by formation of driving clubs, cutting down on unnecessary driving, reducing speed, and keeping the consumption unit adjusted for efficient utilization of fuel.
18. Either the Secretary of the Interior or the Chairman of the National Petroleum Council with the approval of the Secretary, may appoint special committees from the industry as needed to advise local, state or Federal authorities or the industry with regard to the application of the principles set forth herein. Units and individuals of the industry should be authorized to serve on such committees or on committees appointed by local or

state authorities and should be authorized to take concerted action as may be deemed necessary to carry out the recommendations contained in this report. For the present the Chairman of the Council with the approval of the Secretary is requested to appoint regional advisory committees in PAW districts I, II and III.

19. While most of the recommendations outlined above can be adopted by individual companies without the necessity of industry-wide agreements, the recommended program will be adopted more expeditiously and more completely, if all companies are certain that the concerted activities here recommended will not be held to violate the Federal anti-trust laws. The Committee accordingly recommends that its plan be submitted by the Secretary of the Interior to the Attorney General of the United States pursuant to Public Law No. 395 and Executive Order No. 9919, and that the Attorney General's approval be issued in such manner that various features of the plan can be adopted in particular communities where the need for its use may arise without re-submission of the program for that particular community to the Attorney General for approval. The Committee further recommends that in the event above recommendations are approved by the Attorney General, the Secretary of the Interior in issuing his written request to individual members of the industry for compliance with such plan, frame his request in such manner that the plan may be placed in effect immediately and everywhere needed. This procedure will avoid delays incident to securing clearance from the Secretary of individual requests in respect to each individual transaction and will facilitate prompt action in providing quick relief in this emergency.

20. It is recommended that within the next 90 days this Committee review the accomplishments of the above program so that out of the actual experience during this period similar methods can be devised to handle the gasoline situation this summer, and heating oil problems next winter.

If the above recommendations are approved by the National Petroleum Council, it is recommended that the plan be submitted immediately to the Secretary of Interior for review and for clearance with ODT and the Department of Justice. Simultaneously, it should be given wide publicity. The national press services, magazines, and radio chains can render an unusual service to the public through publicizing the plan.

Respectfully submitted,

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