Never Delivered

D R A F T - 12/1/66
Speech Notes for Rep. Robert Dole

It is a great pleasure to meet here with this group representing the different facets of the petroleum industry in Western Kansas. And I welcome the opportunity to discuss with you some of the problems which you, the producers of our basic energy resources, face in the process of political decision-making in Washington.

Before getting into those specific problems, in which I have had a very deep concern, I would like to comment briefly on the sturdy character of this industry - engaged in the high-risk endeavor of finding, developing and producing petroleum fuels, oil and natural gas.

The petroleum industry is no newcomer to the State of Kansas. In fact, it came with the pioneers, and a lot of oil and gas history has gone into the books in Kansas.

In June 1860, more than a century ago and only a year after an ex-railroad conductor named Edwin Drake drilled the first oil well in Pennsylvania, the first oil well west of the Mississippi was drilled near Paola, Kansas, by a newspaper man - G. W. Brown.

Then in 1882, the first commercial gas well west of the Mississippi was drilled in Kansas. Subsequent to that, the gas industry had its first significant boost in the State of Kansas, and the first gas transportation system in the entire Mid-Continent was developed here in 1904 by the Kansas Natural Gas Company.

Geology and scientific oil and gas exploration also got its first recognition in Kansas. The late, great wildcatter, E. L. Doherty, leased some 30,000 acres in the El Dorado area, based in the first large-scale oil geological survey in history. El Dorado later became one of our great oil fields and Doherty's gamble, of course, paid off. The discovery there formed the basis for organization of the old Empire Gas and Fuel Company, which also pioneered in scientific exploration and large scale employment of petroleum geologists and engineers.

We could go on and on exploring historical facts about the oil and gas producing industry in Kansas. I mention these few facts only to illustrate and acknowledge that you people have quite a heritage in problem solving. You have come "many years," so to speak, in meeting the ever -changing technological hurdles in an ever-changing industry.

You likewise have some experience in coming to grips with economic problems, and wisely, you have not only supported but helped pioneer innovations - through sound engineering practices and in state regulatory processes - to protect property rights, prevent economic waste of an irreplaceable natural resources and develop here a sound industry which employes many thousands of people, pays a large tax load, and has long ranked second to agriculture in our State's economy.

So, I won't try to tell you about the technical or economic challenges facing the oil business down the road. I would be out of my element. Experience has proved that those chores are in good hands. However, in looking to the future of this industry, I want you to know that I am among the optimists; I get out of patience with those who see the oil industry in Kansas, or elsewhere, as a dead or dying industry.

Should we run out of oil and/or gas, it will be a result of unwise government policies which will first run us out of oilmen. So, in the broad sense, the problem of maintaining what I shall refer to as "political incentives" could be controlling over the future course of this industry. It is this problem with which I am most familiar, and most concerned, and which I would like to discuss with you today.

I am one who is convinced that the energy policies on such questions as tax policy, import policy, and federal regulation of wellhead natural gas production, must be such as to maintain not only a healthy, expanding oil and gas producing industry - but a climate in which as many as have the inclination will be attracted to explore, and to take their chances in that very hazardous process.

There is no question but what our abundance of petroleum fuels has come from the cumulative efforts of thousands of individuals, partnerships, small companies, and little corporations in the business.

You know, we could have one giant oil company expanding at an 8 to 10 percent rate per year, and, on the basis of its performance, it could be said that we would have a "vigorous petroleum industry." But to have adequate petroleum supplies for the future, we must provide a place and provide the incentives for the thousands of small producers who have found the great builk of the oil in Kansas, and in America.

Policies which fail in providing such a climate will ultimately fail in providing for the future security of our country as to petroleum supplies.

This is the real concern of those of us who find reason to be deeply concerned as to the present "drift" of things in Washington; who find an apparent policy "vacuum" with respect to increasingly-important oil and gas problems, and who too often find policy conflicts on an inter-deparmental basis - with the Interior Department, for example, advocating restraints on oil imports, and the Department of State . . . when the chips are down . . . looking out for the welfare of Venezuela, or Canada, or some other foreign oil producing country.

If oil policies are to be directed at maintaining a strong domestic industry, then it should be reasonable to expect that the present Administration would be responding to the danger signals that are flying all around it.

It is well-known to the Administration that oil exploration and development has been declining since 1957, with an almost 40 percent drop in wildcat drilling, and a further drop - so far in 1966 - of 16 percent in total drilling.

It is known to the Administration too that less crude oil has been found than had been produced and consumed in three of the past six years.

It is known to the Administration that ranks of independent oil producers, because of excessive levels of oil imports and a continually worsening cost-price squeeze, have been thinning as a result of mergers, sellouts, and bankruptcies.

The Administration knows that, in the brief period six years, 1960-65, no fewer than 233 drilling companies have liquidated and have put a total of 1,010 rigs on the auction block. It should know, if it doesn't, that this trend is even accelerating in 1966 with 50 additional companies quitting business and auctioning 228 idle rigs.

This Administration knows, in short, that in the face of a need to find and develop more oil in the next 14 years than we have consumed in the 20 years since World War II, we have a shrinking oil producing industry in this country. It should know that such a situation presents a clear threat to the security of our country.

It knows, I am sure, that we cannot maintain a position of leadership in the world unless we maintain adequate petroleum supplies within our own control. Should we by default run our country out of oilmen, because of policies or lack of policies reflecting a failure to understand the nature of the oil business, we would thus leave the Soviet Union as the only major world power with sufficient petroleum supplies to meet the needs of its economy, and to wage war!

These things are known to the Administration. The Department of Interior in January 1965, published a comprehensive analysis of the domestic petroleum industry. Among the conclusions of that analysis was the finding that not enough exploration and drilling had been done, since 1956, to provide a basis for meeting our future petroleum requirements.

This nation through its taxpayers, is affording a lot of things of questionable need and purpose in the "Great Society" scheme of taxing and spending. However, I say the one thing it cannot afford is to become dependent on foreign oil. And it can avoid doing so at no cost to the taxpayers. It can do so simply by coming firmly to grips with the uncertainities now existing in oil and gas policies, and by providing some sound and consistent answers.

Our defense posture today relies on aircraft which require many times over the fuel consumed by our largest bombers in World War II. Adequate oil within our control is more than ever a deterrent to war, and more than ever our most important munition in war.

Should we lose our sufficiency as to oil, where are the fuel supplies that would assure our position of strength as leader of the Free World? Could we expect to protect and control Venezuelan oil, or Middle Eastern oil? These questions answer themselves. If we cannot depend on foreign oil, then what are our plans, and what are our policies, for sustaining the vigor of our domestic petroleum industry which supplied the bulk of the oil in two World Wars, and which supplied essential fuels to Free Europe when the Suez crisis flared in the cold winter of 1956-57?

In the Suez crisis, the domestic oil industry supplied more than 600,000 barrels daily of petroleum fuels to Europe, on an emergency basis, for a period of almost six months. That experience taught the officials in the Defense establishment of the Eisenhower Administration some stern facts about the essential nature of reliable oil supplies. In a policy statement to the House Ways and Means Committee in May 1958, the Department of Defense said:

> "Recent developments in the Middle East vividly demonstrates the folly of dependence on foreign oil to supplement local supplies even in peacetime."

If that was a sound conclusion in 1958, then it is an even more vital concept in 1966.

Less than a year after the Defense Department reached that conclusion, the Eisenhower Administration implemented the present Mandatory Oil Import Program for one purpose and one only: to assure the maintenance of adequate defense petroleum fuel supplies within the United States.

Nobody claimed or expected that program to be the last word in providing petroleum security. However, it provided a framework under which imports could be adjusted, on the basis of experience, to provide incentives for finding and developing adequate domestic petroleum supplies. The import program has served to provide some stability in imports of crude oil and products, other than residual fuel oil, in Districts I through IV, the area east of the Rockies. But all experience under that program fails to show that it has achieved its intended purpose: resotration of a healthy, expanding domestic petroleum industry.

The best standard for measuring the "health" of an industry, particularly a high-risk extractive industry, is the measure of activity it is carrying forward to find and develop supplies of its product sufficient to the needs of the country.

By this standard, the domestic oil industry still is in trouble. The picture is the State of Kansas, where independent producers have historically predominated, illustrates this disturbing fact. Last year 638 "wildcat" wells were drilled in the search for new petroleum deposits in Kansas - only 59.6 percent of the 1956 exploratory drilling level of 1,073 wells. The total of all wells in this period is down 31 percent, and so far in 1966, total wells are down another 20 percent below the 1965 drilling level.

This declining activity is reflected in a steady downward slide in Kansas' proved crude oil reserves. Our total reserves of 751.6 million barrels at the end of 1965 was 24 percent below the reserve level reported at the end of 1956.

Also most disturbing is the continuous drop in petroleum industry employment in Kansas. Petroleum producing activities in 1965 employed only 11,800 Kansans - nearly 26 percent fewer than the 15,900 production workers employed by the industry in 1958.

These vital activities continue to decline in the face of government estimates that, to meet future petroleum requirements and provide for our security as to energy supplies, the domestic industry will be required to find and develop more petroleum fuels in the next 15 years than it has found and consumed in the past 30 years.

With a challenge of this magnitude in maintaining our energy sufficiency in future years, one would expect a first order of business in energy policy would be to arrive at, and make clear, a firm set of policies to which oil and gas producers could look to and depend upon for the long-range.

Instead, constant uncertainty exists as to even the most basic policies. The Department of Interior, which has the experience and expertise on oil matters, constantly finds itself in a crossfire of dissent from other government departments. On even the most basic policy affecting oil, different government departments constantly find themselves at cross purposes.

I will illustrate this by reviewing, briefly, the "case of the foreign trade-zones." Two years ago, the Foreign Trade-Zones Board received applications from two large chemical companies to construct petrochemical facilities within so-called "foreign trade-zones," and to import foreign petrochemical feedstocks for processing within those zones. Those of us who have been concerned with maintaining the integrity of the import program immediately recognized this as a strategy to circumvent that program.

Hearings were held by the Trade-Zones Board; additional hearings were held by the Department of Interior. Secretary of Interior Udall expressed the view that a series of such "trade-zones" could "wreck" the oil import program. In all the hearings held, the trade zone concept was opposed vigorously by all other industry elements as a threat to the program. However, the Commerce Department and the Department of the Treasury became persuaded that unless these petrochemical firms had access to cheap foreign feedstocks, they would go abroad and build their plants and thus aggravate our balance of payments problem.

Those with experience in the field countered this argument, pointing out that foreign construction would not be slowed even if U. S. plants were given foreign feedstocks. Those companies building in Europe, Japan or elsewhere, are doing so to get behind tariff walls and take advantage of cheap foreign labor which are considerations that are far more important than "feedstock" prices.

Nevertheless, the pressures of other government departments led to actions by the Department of Interior to include petrochemical manufacturers in the import program. In the current year, 32,000 barrels daily were set aside, within total import allocations, for these firms. Import quotas were issued to some 65 petrochemical processors.

Those of us who had been disturbed that this whole development threatened the import program were satisfied with this arrangement. We thought, and were led to believe, that this action to cut petrochemical makers in on the import program would resolve the matter.

But, in mid-September, the Foreign Trade-Zones Board, headed by the Secretary of Commerce, gave its approval to a foreign trade zone in Bay County, Michigan, and Dow Chemical Company has applied to the Department of Interior for a 10,000-barrel-daily quota to supply a petrochemical plant in that zone with foreign feedstocks. The Presidential Proclamation under which imports are limited was amended last December to provide that any oil imports into a Foreign Trade-Zone must be "licensed" by the Interior Department.

However, the Foreign Trade-Zones Board apparently did not even consult with Interior. Instead, by authorizing the Michigan trade zone, it simply "dumped" the problem on the Department of Interior.

So the threat of seriously impairing the effectiveness of the import program again has been raised by the "trade zone" issue. Other petrochemical manufacturers were quick to say that, if Interior authorizes the imports requested by Dow Chemical, they will be forced by competitive pressures to apply for the same treatment.

On October 17, I wrote Interior Secretary Udall with respect to this problem as follows: (I quote from my letter to the Secretary)

> "The authorization by the Foreign Trade-Zones Board on September 12, 1966, of a foreign trade zone in Bay County, Michigan, for the operation of a petrochemical plant using imported oil, is viewed with alarm by the independent oil producers in Kansas and elsewhere.
>
> "Last December, President Johnson modified the Mandatory Oil Import Program to accommodate the petrochemical industry within the program and under this authority, it is my understanding you have allocated some 30,000 barrels daily of controlled imports to petrochemical plants. This action, I understood, was designed to eliminate any need for the establishment of foreign trade-zones

for the operation of petrochemical plants. The independent oil industry of my State is deeply concerned that if the Michigan foreign trade-zone is permitted to utilize imported oil, other requests for trade zones inevitably will follow with the result that total imports would be substantially increased.

"Proposals to encourage further crude oil imports come at a time when the independent oil industry is struggling for survival. Oil imports should be curtailed, not increased, and I hope you will take action to accomplish a reduction during the next allocation period, beginning January 1, 1967."

I am pleased to report that many of my colleagues in the House were equally aroused and concrned as to this development, and less than a week later, I had the opportunity to join with 58 of my colleagues from 18 states in a joint letter to Secretary Udall in which we urged a number of improvements in the import program in the coming year.

I won't go into the specific recommendations made in that letter, but they had to do with correction of a number of weaknesses in the program, some of which have existed for some time.

As to the import program, I believe the domestic industry has a right to expect positive assurance that imports will be stabilized on a long-range basis, and assurance that a constant stream of new gimmicks to circumvent and undermine that program will not gain acceptance. This is a national security program. It should be and must administered as such. It is not a program to be manipulated to suit the convenience or salve the economic pangs of individual companies, be they oil companies or petrochemical companies.

It is not a program that should be kicked around in an interdepartmental touch football game. The Department of Interior should be authorized by the President to administer that program to accomplish its security objective, without interference and pressures from other departments supporting new import loopholes for first this company, then another - or for some foreign producing country or another.

I want to say that this program should not involve partisanship. So far it has not. Both Democrats and Republicans signed the joint letter to Secretary Udall urging that the program be strengthened in the next allocation period.

But when policies on such crucial programs is adrift, when authority for policy is uncertain, when such policy is threatened by interdepartmental actions that are at cross-purposes, and When the President chooses to remain aloof from such critical industry problems, then I say it is time to begin asking questions. It is time to expect the President to take a hand. But if this Administration has any enunciated oil policy, I have been unable to identify it. The so-called oil policy makers in the Interior Department, beset by opposition from every side within the Administration, are operating in a haze. And this industry is - as a result - operating in a fog.

I say if the intergity and meaningfulness of the import program is to be salvaged, then the President of the United States should abandon his apparent reluctance even to discuss oil problems, and take hold of this drifting situation.

I have talked long enough. But, in closing I want to say that oil import policy is not the only petroleum policy that is adrift in a Washington fog today. Out here in Western Kansas we have tremendous reserves of natural gas which represent one of our State's greatest assets. The price of that gas is fixed by the federal government, through the Federal Power Commission, under the false concept that producers of that gas are "federal public utilities."

On August 5, 1965 after 11 years of searching for a method of regulating gas producers under the 1954 Supreme Court decision in the "Phillips Case," the FPC finally issued an order fixing prices charged by gas producers in the Permian Basin of West Texas and New Mexico. This was the first "area rate" decision. Hugoton gas in Kansas is now involved in another "area rate" case.

Whether you are not involved in gas production or not, gentlemen, you are very much involved in the principle. Federal price-fixing of a locally produced, competitively produced commodity is repugnant to every concept upon which our free society is based. If gas prices can be controled, oil prices can be controlled, and the prices of butter and shoes can be controlled.

Twice the Congress has adopted legislation to correct this intolerable situation. Twice, this legislation was vetoed. They say, "the third time is the charm." I hope so. President Johnson knows this federal price-fixing is unnecessary. He knows it is unworkable. He knows that ultimately it will dry up gas supplies. He knows the consumer will be the real victim of shortages and high prices which always result from such dictatorial interference with our natural economic forces in a free society.

Shortage and rationing and black market prices have followed every attempt at federal price-fixing. We only need recall World War II to recognize this. Wartime controls were necessitated by wartime circumstance. Peacetime price controls are a step away from the liberties we covet so much.

So, again, I hope that President Johnson, knowing these things, will take the leadership and support the Congress in bringing an end to this federal price-fixing experiment. And I hope he will do it soon.

There are other problems involving your industry in Washington, but I won't go into them at this time. If we are to have energy security, these problems must be resolved. If those of you in this great industry are to solve the technical and great economic problems involved in keeping this country supplied with ever-growing energy supplies, it is unthinkable that your government would not be willing - indeed anxious - to decide and act on essential policies which will encourage you in that task.

We must work together as we seek and insist upon such policies. And to that end, I pledge you my best efforts. I thank you.