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James Akins, now a consultant in Washington, is the former U.S. Ambassador to Saudi Arabia and former head of the Office of Fuels and Energy, U.S. Department of State.

William Lamont, an attorney from Washington, served three decades in the Antitrust Division, Department of Justice, and he is a recognized expert in competition—or lack thereof—in the oil industry.

I would like to have each of you make opening comments of about 15 minutes, and then go to the questions of the subcommittee, so that we will have an opportunity for each to comment on the others' statements. From the point of view of the record we have to develop the issues before us fully and in depth.

So, we will start off with Mr. Frankel, please.

STATEMENT OF PAUL H. FRANKEL, CHAIRMAN OF THE BOARD, PETROLEUM ECONOMICS, LTD., LONDON, ENGLAND

Mr. FRANKEL. Mr. Chairman, my name is Paul Frankel and I am a British subject, an economist by profession, specializing in oil and energy affairs.

I have written several books and a great number of papers on related subjects. I have also taught oil economics in America and abroad.

More than 20 years ago I founded in London, a consulting firm, Petroleum Economics, Ltd., of which I am now the chairman of the board; it caters principally for medium-sized energy companies, governments, and international agencies.

The future role of American oil companies worldwide and in relation to oil imports of the United States can best be understood by an analysis of the historical and economic elements which have gone into the existing setup.

American oil companies entered foreign countries as suppliers of oil produced in the United States, which until the period of World War II was a net oil exporter. The United States supplied, as one used to say, "Oil for the Lamps of China." In the process of consolidation their sales agencies were eventually transformed into affiliate companies, mostly wholly owned by the U.S. parent and selling products to the end user.

Only when the United States' productive potential ceased to be a global relevance and when foreign sources—Venezuela, Middle East, and Africa—became oil fountainheads, did American oil companies shift some of their "upstream" activities massively to these areas, out of which the actual requirements of their foreign markets and part of their U.S. requirements were met.

There were two reasons why—apart from the government-motivated position-taking by the French—only a small number of American and British companies came to blanket virtually the concessions in the "new" oil areas of the world: (1) The politico-economic predominance of the United States and Britain at the time, and (2) the fact that only large and consolidated enterprises with a considerable cash flow and—significantly—with large and geographically diversified positions in transportation, refining, and marketing, could envisage taking on the outsize financial, industrial, and managerial commitments involved.

Out of all this developed over the decades a system in which investment decisions in foreign "upstream" were determined—and were justified—by the respective positions held semiglobally in the subsequent phases of the industry, right down to the sale to the consumer.

Concurrently, the unit of operation in the oil industry as a whole was of a very high order because only a certain level of industrial concentration made possible a degree of geographical diversification which rendered a heavily investment-laden enterprise reasonably shockproof, due to its ability to average out a large number of individual profit and loss items, the facility to do so provided an "insurance element" which improved the chances of survival of the enterprise as compared with their smaller and more narrow-gaged competitors which inevitably were somewhat accident prone.

Thus, the changes since the early 1970's in the oil setup, for all their far-reaching nature, have left certain structures in place which unavoidably carry some considerable weight. In this respect the state of affairs in the rest of the world outside of the Communist bloc has to be taken into account when one endeavors to outline the opportunities and the limitations of U.S. policies in respect of the style and mode of its oil imports.

Perhaps I could add here, remembering the famous words of Lenin, that what matters in politics and industry was really the control of the commanding heights, and if you control the commanding heights you need not bother about the rest. In our case this has probably been somewhat modified because although the oil companies have lost the control of the commanding heights, they still control the traffic in the plain.

In virtually all OECD countries the main internationally operating oil companies—the majority of which are American owned—cover between 50 percent and about 80 percent of the "downstream" oil activities and it is obvious that their methods of oil procurement are highly relevant for the way the flow of oil from OPEC countries is being organized.

The fact is that in none of the OECD countries—most of them more or less dependent on oil imports from OPEC countries—has there so far been a significant move toward regulations designed to determine by governmental ordinance the methods applied by the "downstream" operators in respect of their supply arrangements for OPEC-country oil—the emergency sharing provisions under IEA, as far as they would involve governmental action, excepted.

Yet, since the previous state of affairs, in which the concession holding companies did determine—within a fairly wide range of alternatives—the volume of oil supplies from each of the oil exporting countries and the amount of investment in most of them, has ceased to obtain, one is perfectly justified in asking oneself whether and to what extent there is a need for a rethinking of the way in which oil, now owned by governmental agencies of OPEC countries, is being acquired and is being brought to the importing country.

Since most of the OPEC countries have rather large quantities of oil to dispose of consistently, it is obvious that they would look to off-takers who can be expected to take these large quantities regularly and pay from them promptly—small wonder that they tend to turn to the

enterprises which are geared to this exercise, if only because they used to take this oil when they happened to "own" it. This is the more likely since all the "free world" over refineries are held by the selfsame companies.

It is tempting to speculate to what extent the OPEC cartel and the large oil companies are complementary and whether they in fact have parallel or even identical interests.

A few almost self-evident features of their new relationship can be established.

First: The companies as buyers of oil are in the short run not directly interested in the absolute level of prices but mainly in their terms of acquisition being no worse than those of other companies of equal stature and somewhat better than that applying to lesser operators. It is even likely that they would not favor any sharp and general reduction of crude oil prices, since it would leave them high and dry with costly inventories—the term "windfall losses" does not even exist.

I must add, we heard yesterday from Mr. Tavoulareas that he does not share this point of view at all. If I understood him rightly, he said that in the long run lower prices would mean demand for lower working capital, and therefore it would be beneficial to the oil companies involved. This may well be in the very long run, but I wonder whether, in a world in which the oil companies have to account to the financial community every 3 months, the immediate heavy loss, resulting from inventory depreciation, would be really very desirable for the oil companies.

Chairman KENNEDY. Would you say correspondingly that they would be more interested in the price going up?

Mr. FRANKEL. Not necessarily, Senator, I come to that in a moment, when I outline what I really believe they are interested in.

Second: They are likely to look for reasonable stability—this is really my answer to your query, sir—in respect of the price and supply pattern because erratic or capricious manipulation of either must affect long-term the status of oil in the energy picture in which they are primarily interested. Also they, like all large-scale and capital-intensive enterprises, tend to look for continuity and for security of tenure, and thus do not favor frequent and wide oscillations of terms and prices. Only such continuity can successfully protect previous investment and encourage investment decisions for the future. It is in this respect that there might be some identity of interest of established offtakers with an OPEC cartel if the latter also focuses on long-term aims.

However, the crucial question remains: How far does this parallelity of interest go and how relevant is it?

It has been said, for instance, by Mr. Anthony Sampson earlier this year, that the oil companies "do the rationing for OPEC." This sounds plausible enough, but operationally it is hard to envisage. Obviously all the companies together cannot take more oil than they can sell, but who could? If demand goes down operators reduce their offtake and vice versa when demand goes up. In that sense OPEC countries and oil companies cooperate—what else could they do? But that is not the essential phase. What matters is whether some—or all—OPEC countries want to increase their respective share of the market—or defen-

sively insist on maintaining it in the face of aggressive methods of others—and thus compete with each other. If and when this is the case they will offer attractive prices and terms to the companies which in turn, since they do compete with each other downstream, pass on at least part of their increased margin to their customers. If, however, none or only some OPEC countries are being expansive and if in the latter case one or some were prepared to make room for the others by moving over, supply could be adjusted to demand and in that case the procedure of disposal would be of minor relevance.

Mr. Chairman, I sat in the hearings yesterday, and I did hear both spokesmen of the international companies point out that the only influence they can apply to the pricing system is to shop around to look for the most convenient and economic crude oil they can find on the market. Obviously with very large operations—the flexible, how shall I say—the collapsible extension to the main program can cover only a comparatively small part of the oil OPEC has to dispose of, or the oil which the offtakers have to take.

If I may say, Mr. Chairman, at this stage, all these ideas, including those put forward by the companies and previously by some noted economists, suffer from the fact that the people, especially the economists, mistake the tail for the dog. That is to say, they look in a fascinated way at the movable fringe of the market, the spot sales, if you like, and forget that in an energy industry the overwhelming part of the operations must be planned and operationally executed over a long period, because it cannot be done on an ad hoc basis.

Now, undoubtedly the fringe operations are very important, but they have to be seen in the right context. If I may still stick to my picture, you can imagine a dog without a tail, but it is very difficult to imagine a tail without the dog. [Laughter.]

Going back to what I tried to describe before, that the real decision is being made in respect to the competition of one OPEC country with the other.

The Texas Railroad Commission could proudly state that it had nothing to do with oil trade and the price of oil, simply because it managed to adjust the volume of supply at source by way of market demand proration.

There remains the need to analyze whether alternative methods of procurement would give substantially different and/or more desirable results. Firstly we must bear in mind that such alternative methods would in the circumstances have to be governmentally induced and enforced, simply because there does not now exist a competitive field comprising a multitude of small- or medium-sized refiners and marketers—I am talking about the international scene—to whom the OPEC sales could be directed and for whose custom the OPEC countries would have to strive.

Consequently, only an import system in which governments or goverment agencies would be interposed as import managers could fundamentally alter the operational pattern. A great deal has been said and written about the technicalities of such a kind of import monopoly—auctions, sealed bids and all—but what really matters is in fact that the results of any such system—or of the absence of a system—depend on the prevailing relation of supply and demand and in our case also on the cohesion of OPEC.

Under conditions of actual or contrived supply stringency—short of major curtailments for the handling of which the emergency sharing system of IEA has been designed—centralized buying is not likely to yield better results because in that case the buyer's position becomes weaker the greater is the volume of his requirements and the heavier is the responsibility of procuring it.

On the other hand, an effective control of individual import decisions would be called for in such a contingency. Had it existed at the end of 1973 the mad rush of some operators, bidding up prices for marginal quantities, thus giving the appearance that oil could be sold at any price, would have been nipped in the bud.

On the other hand, in the case of a state of tangible oversupply, prices tend to soften at the edges and centralized buying is less likely to identify and exploit such opportunities as they arise. If, however, massive and sustained oversupply, arising at several points of supply, or straight political pressures should after all wrench the OPEC cartel apart, then it would not matter too much how the procurement of oil was organized.

Mr. Chairman, I now turn to the subject, the role of national oil companies in consumer countries, and here, as I assume, the reason for my being called to testify today is that I have an overview of non-U.S. situations. I would like to refer very briefly to the experience and motivation in other countries which have—as far as they have—led to the constitution of national oil companies in oil-importing countries.

The question whether there is, in the present circumstances, a call for the formation of a Federal oil company has been raised and reference has been made to the degree to which experience gained in other countries could be a pointer in the right direction.

It is a fact that national, that is to say either State-owned or Government-backed, oil companies operate in a substantial number of countries and their formation did and does to my mind make perfect sense in the context of their respective economic, political, and social circumstances.

Generally speaking, such national oil companies were initiated and sponsored by governments which wanted to remedy the fact that most if not all of the oil business was covered by or on behalf of foreign operators. The latters' paramount position and ample resources inhibited the emergence of competitive private indigenous forces and only another big entity, the national government or its offshoot, could face the foreign corporations on something like an equal footing.

The existence of such national oil company (or companies) provides the respective government with firsthand information on, and genuine insight into the intricacies of the industrial structure and of operational methods which renders manageable the task of monitoring developments effectively—one has talked of Benchmark Enterprises.

It has also been pointed out that these national enterprises are the European equivalent of the regulatory agencies of the United States. It was said that the U.S. legal setup—by way of the Department of Justice and of the courts—provides the instruments for surveillance of and for the promulgation of directives to private enterprise. The constitutional base for such governmental policy formulation and

enforcement lacking elsewhere, the method most likely to be adequate was seen to be and still is direct Government-backed industrial activity.

Reverting to the U.S. scene, it would appear that neither of the motivations which have led elsewhere to the establishment of national oil companies are applicable here. There is no problem of foreign predominance, nor is there a need to use other means to reach targets which are within the province of, inter alia, regulatory agencies.

All this notwithstanding, it is reasonable to assume that in certain circumstances, for instance, noncommercial acquisition of oil for stockpiling purposes, special agencies might be used or created. It is also possible that certain investments abroad, which are in the national interest, but whose politically induced risks inhibit private enterprise going ahead, might have to be organized in one way or the other by governmentally orientated operators. There is, however, hardly a prima facie case for stating that a fully fledged Federal oil company is the only or even the most adequate vehicle to reach these specific targets.

Now, some final thoughts.

One, the worldwide trade in oil being organized as it is, a radically different approach in the United States would by itself hardly dislocate the OPEC cartel. U.S. imports were in 1975 15 percent of the total exports of OPEC countries. If OPEC wanted to challenge a U.S. import system not to its liking, it could boycott it, sustaining in the process less inconvenience than it would inflict on the United States; 63 percent of U.S. oil imports and 23 percent of U.S. oil demand are met by OPEC countries.

The success prospects of a unified system of oil import management of all OECD countries would be somewhat greater, but it is virtually certain that such a system is politically unattainable.

Two, only the internal cohesion or the lack thereof will be the decisive factor for OPEC, and this depends to a much greater extent on intensely political and on fundamental economic problems than on any gimmicks one could think up in the technique of procurement.

Three, finally, surveillance of oil companies in their domestic and international dealings is more necessary than ever. A higher degree of transparency is called for, without necessarily following the example of the child who, bent on finding out how the toy works, dismantles it and in the process wrecks it altogether.

Thank you, Mr. Chairman.

Chairman KENNEDY. Thank you very much, Mr. Frankel.

We want to welcome Senator Taft, an enormously active member of the subcommittee. Senator, we are hearing from each witness, and then we will go on to the questions.

Senator TAFT. Great.

Chairman KENNEDY. Mr. Krueger.

STATEMENT OF ROBERT B. KRUEGER, ATTORNEY, LAW FIRM OF NOSSAMAN, WATERS, KRUEGER, MARSH & RIORDAN, LOS ANGELES, CALIF.

Mr. KRUEGER. Gentlemen, I was the project director for a study that my law firm, Nossaman, Waters, Krueger & Marsh, undertook in 1974

for the Federal Energy Administration on the options of the U.S. Government in its relationship to U.S. firms in international petroleum affairs.

Our report,[1] which was released in February of 1975, indicated that there was a clear-cut need for a greater involvement, a greater presence, by the U.S. Government in the activities of U.S. firms in international petroleum transactions. We found abundant evidence that the major oil firms did not cause or conspire with OPEC or producer countries in bringing about the energy crisis and the resulting higher prices. On the other hand, it was also very clear that the oil companies operating abroad, both the United States and foreign companies, and both the independents and majors, had become virtually hostages of the major producer nations and lacked the will and resources to resist their demands for higher prices and greater "participation." We concluded that "the existing incentives for the companies do not assure that their behavior will be consistent with the national interests of the United States."

We accordingly recommended that the U.S. Government should "have access to relevant information regarding present and future significant international petroleum arrangements."

Chairman KENNEDY. Mr. Frankel, do you agree with that concept?

Mr. FRANKEL. It depends on the context in which it is seen; as such we do.

Chairman KENNEDY. We will come back to that.

Mr. KRUEGER. We proposed that the information be provided to the Federal Government on a confidential basis, but before the fact.

We also predicated this proposal on there being established a sufficiently responsible and a sufficiently independent agency to take necessary action. We recommend that the Federal Government be given "the power to review and approve such transactions where they may affect significant aspects of the national interest."

We understand that our report has been useful to your subcommittee in its work in this area and the related study undertaken by the General Accounting Office at your request. This is rewarding; I hope that your efforts lead to intelligent action by the Federal Government.

At the outset it should be emphasized that the United States and the free world—I would say the world generally—have benefited enormously from the technology, scientific expertise and managerial skills of the U.S. petroleum companies, both the large, international companies and the independents. With relatively little governmental support and at times possibly even a negative governmental presence, they were the leaders in creating the present global supply system, a system which historically has responded very effectively to the demands placed upon it. In the process these companies became and remain an important component of the U.S. presence abroad.

Even today, despite the continued threat of disruption and higher prices, the petroleum industry serves the logistical demands of the modern world well and—it is worth noting—did so during the energy crisis, itself. This does not suggest that the international petroleum industry should not be regulated, but it does indicate that care should

[1] See the summary of the report, p. 116.

be taken that changes introduced into the system do not materially impair its efficiency. It should not be assumed that the firms—foreign and domestic—which would surely desire to displace the U.S. majors in foreign markets would do so on better terms or would serve the United States or world markets as well.

The history of international petroleum demonstrates that a free market has probably never prevailed. On the other hand, regardless of their historic cartels, there has been significant competition among the companies in international markets for at least the last 10 years. For this reason I would not favor a system which disabled a U.S. company in one class from competing against other U.S. companies or foreign companies in international petroleum markets.

Insofar as some of the issues raised by your subcommittee I have these comments.

As indicated earlier, there may be, indeed probably are, divergencies between the interests of the United States and foreign companies in negotiating long-term supply arrangements and those of the U.S. Government. The companies on their parts are interested in preserving or obtaining preferred acces to foreign supply so that they can service United States and foreign markets—serve their system.

To achieve this they are often willing to accept terms which establish precedent in the world market that inevitably leads to higher prices. The arrangements negotiated by Gulf and British Petroleum in Kuwait in 1974 for "buy-back" crude was a good example of this. The arrangements recently negotiated by Aramco—and still being negotiated, I am told, and of course Aramco is Exxon, Mobil, Socal and Texaco—with Saudi Arabia could be a similar example. These examples suggest, indeed, call out for the U.S. Government to at least obtain complete information regarding such transactions before they are concluded, so that a decision can be made whether the U.S. Government should do anything to prevent or alter precedent-setting arrangements. It also indicates the desirability of having a mechanism to review and pass upon these transactions to assure that they are consistent with acknowledged policy objectives. Among those are:

The establishment of an adequate and secure supply of petroleum;

The maintenance of a reasonable and predictable price for our consumers, and I would say the consumers in other countries as well;

The maintenance of national security—and the crisis did show that this is an issue when there is a shortage, such as an embargo.

The maintenance of viable foreign relations;

Efficiency of resource utilization here and abroad; and

The encouragement of a free and effective competition.

The companies I just mentioned are majors, part of the "Seven Sisters." There is, however, no reason to conclude that the majors are a special source of concern in this respect. The independents were the first to "break the line" both in the Middle East and elsewhere and it was essentially their competition which made possible the "leap-frogging" tactics of the Persian Gulf and North African producers in the price negotiations of the early 1970s. They—the independents—often had no other significant sources of foreign supply and were, therefore, less concerned about precedental effects. History strongly

indicates that where there is a real or potential cartel among producers, competition among consumer-nation companies will not result in a more stable supply or lower prices. If anything, the contrary is more likely to be true.

When you are talking about competition and inspiring greater competition in foreign margets, it must be kept in mind that the history of Middle Eastern oil shows that it was competition that inevitably led to OPEC, and that higher competition on price did not bring prices down but forced them up.

It has been suggested that contracts providing producer countries with assured outlets for petroleum minimize the need to compete in price and on the companies' part the desire to develop U.S. energy sources. While this might be the case in a free market, this suggestion lacks validity in today's market which is, of course, not free but a market controlled by a sellers' cartel. In this market, supply is orchestrated so as to maintain price and those who wish to have access to the supply must pay the price.

The companies who historically have had preferred access to international supplies and who have developed the logistical structure to distribute them are very vulnerable to the demands of producer nations. It is for this reason that I believe their international supply arrangements should be regulated. I see no reason to believe, however, that if the U.S. companies—the majors, as has been discussed—were prevented from competing for access in such markets, the producer nations would for that reason begin to compete in price or impose less demanding conditions on the foreign or other domestic firms that would, inevitably, take their place.

In this respect, it should be noted that most of the foreign firms in which consumer nations have an interest—CFP in France, for example, and ENI in Italy, for example—have made deals which are less favorable from the standpoint of price than those of the U.S. firms. This is also true of deals made by consumer governments themselves.

In examining options in this area it is important to look carefully at results which would probably occur. We can do many things to U.S. firms: We can reconfigure them; we can control their prices; we can disable them from effectively competing in international markets, both in classes and activities; we can dismember them. None of these, however, would predictably result in any change in pricing in today's international markets. Those companies which took the place of our companies would inherit their problems and would still need to use their distribution system. We do not have another one.

The ability to compete in international markets may have diverted some firms from developing domestic energy sources. The major economic constraint in this area, however, has been the existence of domestic price controls, particularly with respect to natural gas. Environmental considerations and costs have also been major factors in delaying the development of the Outer Continental Shelf, which appears to be the last area of potentially large primary reserves in most of the United States.

I might note the development of these reserves, such as those in Alaska, as well as the development of the North Sea, will be putting a cost floor under the OPEC prices. We have now progressed to the

point where we are talking about the cost, arriving in California, of the North Slope oil being $7.50 to $10 a barrel. So, if we are going to bring in our own oil at that price, there is very little reason to think we will be able to obtain it elsewhere at less.

Chairman KENNEDY. That is not going to be the situation if they bring the oil in the New England coast, or Massachusetts.

Mr. KRUEGER. Still, Senator, the entry cost in the area of Massachusetts is very high; offshore work is very expensive; those platforms are very expensive; pipelines to bring it in are very expensive. I do not have the figures, but I would be very surprised if you are talking about bringing the oil into Massachusetts at much less cost than $7 a barrel.

If price controls were ameliorated or removed, perhaps with tax "windfall" provisions and assistance to disadvantaged classes of users, there would predictably be much greater development of domestic sources. The higher prices there would also promote more conservation which is being substantially ignored in the United States today. With our greatly increased demand and our steadily decreasing domestic supplies, we are in worse shape than we have ever been in terms of dependency on foreign oil. From approximately 35 percent dependency in 1973 we are edging up toward 50 percent; the latest figures are 42 or 43 percent.

Chairman KENNEDY. You have an extensive statement, Mr. Krueger, and we want to reserve some time toward the end for some interchange; do you think you could summarize it?

Mr. KRUEGER. Yes; I intend to do that, that was only the opening part that I was going to cover extensively.

I would comment briefly on the concept of "downstream" investment in the United States. There have been a number proposed, largely by Iran wanting to take over 50 percent of Shell's marketing operation in the Northeastern United States in consideration for joint venture on refining in Iran. They also had discussions with Ashland. It is very apparent that to give the producing nations downstream points of control, such as marketing, refining, tanking and pipelines, would render us more vulnerable to political pressures, and also interruptions of various kinds.

It is for this reason, as well as strong sentiment by some Americans against almost any form of Arab investment that there has been virtually no major investment by the Middle Eastern countries which has passed without question.

I might say, I quite frankly do not know of one significant downstream petroleum investment that has been consummated yet by one of the Middle Eastern producers.

In comparison, we have permitted British Petroleum to take a very dominant position in both downstream by virtue of their Sohio acquisition, and upstream because of their north slope interests. This has been done without any significant opposition. The Sohio exchange has given BP, which is now 70 percent effectively owned by the British Government, the potential of majority ownership in what will be one of the largest U.S. integrated companies.

I don't think we should resist this type of investment. This country has been developed with foreign capital, and it is a good way to recycle petrodollars. I do believe that major arrangements of this kind,

though, should be subject to disclosure, review and approval of the same type I discussed for foreign supply arrangements.

I generally share Mr. Frankel's views on the OPEC-major oil company relationship insofar as distribution is concerned. The OPEC powers need our companies and the companies need OPEC. But this is not to say that somehow by putting aside the majors you could reduce supply, or reduce price. There is no one to really take their place unless we get into a program of creating a whole new system. They have the global supply and distribution system—we need it.

There is always the question raised of whether we should adopt a policy of encouraging development of supply in non-OPEC countries, so-called "safe countries." Where are those safe countries? There is the United Kingdom, which has talked about conserving its North Sea oil for domestic uses, and it has taken a very strong and very adverse position with respect to United States company involvement by virtue of acquiring participation in the North Sea. We have Norway, which has said it is going to hold back its development to generate only such revenues as it can absorb. Mexico, to the south, is saying that it is going to follow OPEC pricing. Canada, to the north, which has "out-OPECed" OPEC in terms of what they have done to our companies and by way of export controls.

Where is it safe? I can't see where the People's Republic of China and Saudi Arabia are that different. As a matter of fact, the People's Republic of China has higher prices, and as a matter of fact, if we had export capacity, our companies would probably be selling at OPEC price.

In short, insofar as reliability is concerned, I don't see much difference—if any—between OPEC members and other producer countries except possibly with respect to the very important issue of using oil as a weapon in the Israeli-Arab conflict, and—of course—that is very important to this whole issue.

Insofar as a Federal Government petroleum corporation is concerned, I share Mr. Frankel's view that we do not need it in this country. It would be largely an act of redundancy for us to form one because we have access to foreign petroleum information, and we have access to foreign petroleum, if we only regulate the companies so as to require disclosure, and to determine if their international transactions are consistent with national policy objectives.

I would like to comment that I do not feel that a vertical breakup of the major companies, such as that proposed in S. 2387, would have any positive effect on pricing and supply in international markets. Historically, there is no reason to believe that the independents or smaller companies could exert any competitive influence on OPEC would cause prices to back down—the converse would be true.

In terms of the other options which are available, I covered these in my paper. I quite agree with Mr. Frankel that the "gimmicks" of establishing a national system to limit imports of one kind of another are just that and will not work. I think there is a possibility of making progress in terms of bilateral arrangements which assist in the creation of mutual interests between companies, such as those with Saudi Arabia and Iran.

The friendship and good offices between Saudi Arabia and the United States, for example, may have had a very material effect on

the Saudi determination not to permit another price rise in the recent OPEC meeting. The Saudi importance in international oil and OPEC cannot be overestimated. It can literally determine world prices. There is a direct tie from that to the importance of the resolution of the Arab-Israeli conflict to Saudi Arabia and other Middle Eastern producers, which cannot be also overestimated.

The ongoing Conference on International Economic Cooperation is a very useful means for generally and on a very broad base, with a GATT type of format, beginning to solve some of the differences between producer and consumer countries on oil and the interrelationship of oil to goods, services, and other resources.

I come back to a basic thesis: I believe it is essential for this country to have access to information regarding major international petroleum arrangements. I would use a form of regulation; I would also permit U.S. companies to cooperate in foreign markets with appropriate supervision by the United States and appropriate exemptions given from antitrust restraints. I would permit them to cooperate in order to attempt to deal effectively with the cartel.

Again, competition is perhaps a great thing in our domestic scene, but we have never had free competition in international oil, and I believe it is at least a two-edged sword, one side of which is now wounding the consumer.

I conclude by saying that the United States' best interest is not served in trying to break OPEC, nor in seeking complete energy independence, but in stabilizing supplies and prices to reasonable levels for itself and other consumer nations, and in maintaining sufficient international and domestic controls to achieve that end.

Thank you, gentlemen.

Chairman KENNEDY. Thank you very much. Without objection Mr. Krueger's prepared statement and the report referred to will be printed in the hearing record.

[The prepared statement of Mr. Krueger, along with the summary of a report entitled "An Evaluation of the Options of the U.S. Government in Its Relationship to U.S. Firms in International Petroleum Affairs" follow:]

PREPARED STATEMENT OF ROBERT B. KRUEGER

Gentlemen: I was the project director for a study that my law firm, Nossaman, Waters, Krueger & Marsh, undertook in 1974 for the Federal Energy Administration on the options of the U.S. Government in its relationship to U.S. firms in international petroleum affairs. Our report, which was released in February of 1975, indicated that there was a clear-cut need for greater involvement by the United States Government in the activities of U.S. firms in international petroleum transactions. We found abundant evidence that the major oil firms did not cause or conspire with OPEC or producer nations in bringing about the energy crisis and the resulting higher prices. On the other hand, it was also very clear that the oil companies operating abroad, both U.S. and foreign and majors as well as independents, had become virtual hostages of the major producer nations and lacked the will and resources to resist their demands for higher prices and greater "participation". We concluded that "the existing incentives for the companies do not assure that their behavior will be consistent with the national interests of the United Staes." We accordingly recommended that at a minimum the U.S. Government should "have access to relevant information regarding present and future significant international petroleum arrangements" and that it also be given "the power to review and approve such transaction where they may affect significant aspects of the national interest."