imports. On February 16, 1995, President Clinton approved Secretary Brown's finding and determined that no action to adjust oil imports under Section 232 need be taken.

The Executive Summary of the December 29, 1994, U.S. Department of Commerce Section 232 Study is reproduced below.

Dated: June 5, 1995.

**Sue E. Eckert,**

*Assistant Secretary for Export Administration.*

## Executive Summary

### *Introduction*

On March 11, 1994, the Independent Petroleum Association of America (IPAA) and various other industry associations, companies, and individuals filed a petition under Section 232 of the Trade Expansion Act of 1962, as amended (19 U.S.C. Section 1862 (1988)) requesting the Department to initiate an investigation of the impact on the national security of imports of crude oil and refined petroleum products.

The IPAA petition alleged that U.S. energy security worsened since the Department's last Section 232 oil import investigation in 1988 because oil imports grew both in absolute terms and as a percentage of U.S. oil consumption, leaving the United States further subject to an oil supply disruption with the resultant economic costs. The petition also alleged that imports of low-priced oil are weakening the domestic petroleum industry to such an extent that it will not be able to support U.S. security needs in the event of a major conventional war.

On April 5, 1994, the Department initiated the investigation and invited public comment. The Department held three public hearings in New York, New York; Dallas, Texas; and Santa Clara, California. During the comment period, 69 people presented comments reflecting both support for and opposition to the allegations made by the petitioner.

Under Section 232, the Department had 270 days, until December 31, 1994, from the date of initiation of an investigation to submit a report of findings and recommendations to the President.

### *Methodology*

The Department chaired an interagency working group that included the Departments of Energy, Interior, Defense, Labor, State, and Treasury, the Office of Management and Budget, the Council of Economic Advisors, and the U.S. Trade Representative to assist in the investigation.

The Department used a two-step process to evaluate the petition. In the first step, the Department reviewed key factors from the 1988 investigation to determine whether they improved or deteriorated. These factors included: (1) domestic oil reserves; (2) domestic oil production; (3) industry employment; (4) the impact of low oil prices on the economy; (5) the status of the domestic oil industry; (6) oil import dependence; (7) import vulnerability, including measures to offset an oil supply disruption; (8) foreign policy flexibility; and (9) U.S. military requirements. The second step involved review of new factors that emerged since the last investigation, including: (1) the status of OPEC; (2) oil price transparency due to the emergence of a futures market; and (3) the demise of the Soviet Union.

The Department made use of the extensive data and analyses that were already available regarding the current and prospective status of the domestic petroleum industry and the world oil market. In view of this extensive body of available data, the Department determined that an industry survey was not necessary. The Department also drew upon the written comments and testimony from interested parties who participated in the public hearings.

This report is based on a number of agreed-upon economic assumptions including, *inter alia*, crude oil price levels, U.S. crude oil production, economic growth rates, and inflation.

## Review of Key Factors From the 1988 Investigation

### *1. Domestic Oil Reserves*

*Petition:* Low-priced oil imports (hereinafter referred to as low oil prices) were largely responsible for the decline in domestic oil reserves.

*DOC Analysis and Conclusion:* Since the 1988 investigation, U.S. proved crude oil reserves declined by 3.8 billion barrels. Low oil prices contributed to, but are not totally responsible for, the erosion of the U.S. oil reserves base. The underlying physical reality is that the U.S. already developed the bulk of its known and easily accessible low cost deposits and decided against developing other geological prospects such as the Arctic National Wildlife Refuge and the Outer Continental Shelf. Since the reserves base reflects the structural geological reality, given present technology, oil price increases at best can arrest, but not reverse this trend.

### *2. Domestic Oil Production*

*Petition:* Low oil prices are responsible for the decline in U.S. production.

*DOC Analysis and Conclusion:* The production outlook remains essentially the same as in the 1988 investigation. The United States is a high-cost producer compared to other countries because we have already depleted our known low-cost reserves. Since 1986, low oil prices have exacerbated the cost-price squeeze facing U.S. producers. U.S. production declined by 1.7 million barrels per day (MB/D) and net imports increased. The dislocation undercut U.S. exploration activities and impaired the development of competing energy sources, thereby enabling OPEC to recapture part of the market it lost after the price shocks of the late 1970s.

### *3. Exploration and Industry Employment*

*Petition:* Low oil prices are responsible for the massive falloff in drilling and in industry employment.

*DOC Analysis and Conclusion:* The Department found a sharp reduction in U.S. drilling and oil and gas industry employment between 1985 and 1993. The level of exploratory drilling, well completions, and rotary rigs in use for oil and gas exploration declined since 1988. Employment fell from 582,000 in 1985 to 351,000 in 1993. A large share of the lost jobs occurred in petroleum exploration and development sectors.

However, oil imports are *not* the only reason for the decline in exploratory drilling and well completions. U.S. companies are drilling less because they made substantial gains in total productivity by employing new exploration and drilling technology and focussing on the most productive geological opportunities.

### *4. The Impact on the Economy of Low Oil Prices*

*Petition:* The petitioner did not specifically address the benefits to the economy of low oil prices.

*DOC Analysis and Conclusion:* The Department found that the economic consequences of low prices resulted in positive benefits to the U.S. economy. Because the United States is now a net importer of oil, lower prices on balance helped the economy. The public benefitted from lower prices for transportation fuels and heating oil. For the economy as a whole, low oil prices contributed to a reduction in inflation, a rise in real disposable income, and an increase in the Gross Domestic Product.