

INTERSTATE SHIPMENT OF PETROLEUM AND ITS PRODUCTS PRODUCED IN VIOLATION OF STATE LAW

MARCH 25, 1937.—Ordered to be printed

Mr. CONNALLY, from the Committee on Finance, submitted the following

REPORT

[To accompany S. 790]

The Committee on Finance, to whom was referred the bill (S. 790) to repeal section 13 of the act entitled "An act to regulate interstate and foreign commerce in petroleum and its products by prohibiting the shipment in such commerce of petroleum and its products produced in violation of State law, and for other purposes", approved February 22, 1935, having considered the same, report thereon with a recommendation that it pass.

Section 13 of the act of February 22, 1935, provides that "This act shall cease to be in effect on June 16, 1937", and S. 790 repeals that section and makes the act permanent law.

The act of February 22, 1935, generally known as the "hot-oil" law, is a measure designed to assist in the conservation of the oil and gas resources of the Nation by supplementing the efforts of the oil-producing States in the prevention of waste in the production of oil and gas.

Five States—Kansas, Louisiana, New Mexico, Oklahoma, and Texas—producing 73 percent of the national oil output, have adopted the policy of regulating oil production so as to prevent waste. Each of these States determines the amount of oil which currently may be produced without waste, and the Federal Government, under the act of February 22, 1935, simply supports the State policy by providing that petroleum, or the products thereof, produced in excess of the amounts permitted by State law, is contraband and may not be moved in interstate or foreign commerce. In the existing law, the Congress has clearly stated its legislative policy, has established necessary standards, and laid down rules. The act has been supported with uniform success in the Federal courts and no issue thereunder has been presented to the Supreme Court. The prosecution of cases rests with

the Department of Justice. Out of 248 civil and criminal cases arising under the law, the Government has been successful in 231, unsuccessful in 2, and has pending 15.

During the fiscal year ended June 30, 1936, the Department of the Interior in administering the act of February 22, 1935, issued about 6,000 certificates of clearance involving 222,000,000 barrels of petroleum and products at a cost of about one-tenth of a cent a barrel. If the act is terminated on June 16, 1937, contraband oil will frustrate the States in their conservational activities with resultant waste of an irreplaceable natural resource essential to the prosperity of our citizens and absolutely indispensable to our national defense. An example of the effectiveness of the act from the standpoint of conservation by the prevention of waste is established by testimony that through the cooperative efforts of State and Federal Governments the ultimate recovery of oil in one field has been increased by more than 600,000,000 barrels, an amount which could be equaled only by the discovery of 60 average-sized oil fields. As stated, the act supports State oil and gas conservation laws and increases their effectiveness.

Comprehensive hearings on S. 790 were held on February 12, 15, 16, and 17 before a subcommittee of your committee. The preponderance of testimony at the hearings was in favor of the repeal of section 13 and the permanent enactment of the legislation. The attorney general for the State of Texas and a member of the Railroad Commission of Texas, who also is chairman of the Interstate Oil Compact Commission, appeared in behalf of the measure, while communications recommending its enactment were received from the Governor of Oklahoma, two members of the Oklahoma Corporation Commission, and the chairman of the Corporation Commission of Kansas. In addition, numerous independent oil producers registered their approval of the measure and urged the permanent enactment of the law. The Secretary of the Interior presented a statement in which he recommended the continued cooperation of the State and Federal Governments in the conservation of the oil and gas resources of the Nation and that the law be made permanent. The bill (S. 790) has been referred to the Bureau of the Budget and your committee has been advised that its enactment is in accord with the President's policy.

Because of the proven efficacy of the Connally Act, the activity of all but one of the large oil-producing States to improve their oil conservation laws, the larger ultimate yields of an irreplaceable natural resource by preventing waste, and the continued need of support of the States in the enforcement of their laws by the Federal Government, your committee believes it highly desirable that the bill be speedily enacted by Congress without change or modification and so recommends.

The following letter from the Secretary of the Interior recommending enactment of this legislation is included herein and made a part of this report:

INTERIOR DEPARTMENT,
Washington, February 12, 1937.

HON. PAT HARRISON,
United States Senate.

MY DEAR SENATOR HARRISON: Replying to your letter of January 15, 1937, requesting a report on S. 790, which proposes to make permanent the law of February 22, 1935, which regulates interstate and foreign commerce in petroleum and its products by prohibiting the shipment in such commerce of petroleum and its products produced in violation of State law.

By giving strong support to the oil and gas conservation laws of the oil-producing States the law of February 22, 1935, generally known as the Connally Act, has contributed materially to the advances made during the past few years in the prevention of avoidable physical waste in oil and gas production and to the resulting increased ultimate recovery of oil.

By eliminating contraband oil products from interstate commerce, the law has been one of the principal factors which have made it possible for nearly all independent and nonintegrated petroleum refiners to operate without incurring the substantial losses which threatened their existence immediately prior to the enactment of that legislation.

The law also has removed one of the most persistent elements in the vicious "price wars" which were prevalent prior to the enactment of the legislation and which threatened the existence in business of numerous independent retailers of petroleum products.

The law has made this contribution to the conservation of the Nation's oil and gas resources and to the economic stability of the petroleum industry without causing any material increase in the retail prices, ex taxes, of gasoline and other petroleum products.

The law has been supported with uniform success in the Federal courts in Texas and Louisiana.

In administering this law during the past 2 years, I have received full cooperation from the oil and gas conservation authorities of the several States and from the petroleum industry.

The need for the conservation of the Nation's oil and gas resources is of equal importance in periods of scarcity as in periods of excess supply and, in my opinion, the legislation which supports the State oil and gas conservation laws should be made permanent by eliminating section 13 of the law of February 22, 1935.

The Bureau of the Budget has advised that it has no objection to the enactment of S. 790.

The enactment of S. 790 is recommended.

Sincerely yours,

HAROLD L. IOKES,
Secretary of the Interior.

