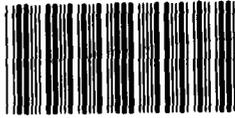


Please return article
to Mr. Peach, Rm 5120



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The Honorable Harley O. Staggers
Chairman
Committee on Interstate and Foreign
Commerce
House of Representatives

Dear Mr. Chairman:

This is in response to your letter of January 11, 1980, requesting our comments on H.R. 6174, which would establish a Federal Oil Import Corporation. Our comments will, of necessity, be preliminary since we are just now beginning a review of the issue surrounding the establishment of a national oil company. Our study will cover issues concerning government trading companies such as proposed in H.R. 6174 and also those concerning government exploration, production and refining companies. The "Energy Company of America" bill (S. 580) includes setting up a company with these, and other, responsibilities. We are also studying the role of the petroleum spot market and the influence that market has on the U.S. The study should be published this coming June, and may be relevant to the debate on a Federal Oil Import corporation.

Because we are at the stage of determining areas for examination in our study, we would like to limit ourselves to suggesting issues which the Committee may wish to consider concerning the purposes of the Corporation as embodied in Section 2 of H.R. 6174.

Specifically, with regard to leverage, would a government trading company be able to insure more stable and economical supplies of crude than can private companies? The Federal Oil Import Corporation would be just one more company among the dozens which import oil into this country. Under these circumstances, could the Federal Oil Corporation make a difference? While a company which is an arm of the U.S. Government could possibly bring greater leverage to bear on negotiations with exporting countries' national companies, if a dispute developed between an exporting Nation and the U.S., the exporter might be more likely to take actions against a government than a private company.

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As for broadening government expertise: The world oil market is exceedingly complex and U.S. companies have widely different relations with the various exporting nations and among themselves. The Federal Oil Import Corporation would have to deal with a large number of these countries and companies in order to assure a balanced "education" for Federal regulators. Are there not easier ways to achieve this expertise--such as augmented DOE auditing of the international companies? In any case, there are numerous ways to increase the expertise of Federal energy regulators and a range of them should be examined before we commit ourselves to any particular one.

Finally, the function of buying oil for the SPR and related policies currently rest with DOD and DOE. While GAO has pointed out numerous difficulties in various aspects of the administration and operation of the SPR, the question of whether government corporations could do a better job has not been answered. GAO is currently reviewing DOD's procurement of oil for the SPR.

We expect that our forthcoming study will shed light on these and related questions.

In closing, we have a technical suggestion concerning the role of GAO as envisioned in the bill. Section 7(d)(2) calls for GAO audits of the Corporation's financial transactions. We believe that GAO's relationship to the Federal Oil Import Corporation, should it be established, ought to include the evaluation of all its activities and not merely financial audits. Language which would give GAO this responsibility could be:

"The Comptroller General shall audit the programs, activities, and financial operations of the Corporation and shall report to the Congress at such time and to such extent as he deems necessary to keep the Congress informed on the status of such programs, activities, and operations, and to make recommendations for achieving greater economy, efficiency and effectiveness. The audit shall be made under such rules and regulations as he may prescribe.

"For the purpose of such audits, the Comptroller General, or any of his duly authorized representatives, shall have access to and the right to examine all books, accounts, records, reports, files and all other papers, things or property belonging to or in use by the Corporation."

Sincerely yours,

Assistant Signed: *R.H. Keller*

Comptroller General
of the United States