

**A NATIONAL
OIL POLICY
FOR THE
UNITED STATES**

A REPORT OF

The National Petroleum Council

1949

NATIONAL PETROLEUM COUNCIL

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January 13, 1949

*Honorable J. A. Krug
Secretary of the Interior
Washington, D. C.*

My dear Mr. Secretary:

Pursuant to your request of July 3, 1948, that I appoint a committee to restudy and supplement the report on A Petroleum Policy for the United States adopted on October 24, 1945, by the Petroleum Industry War Council, I have the honor to transmit to you herewith a report on A National Oil Policy for the United States prepared by the National Oil Policy Committee of the National Petroleum Council and unanimously approved by the Council on January 13, 1949.

In the preparation of this report the Council has kept actively in mind the importance of the assignment, as expressed in the following quotation from your letter of July 3:

As you are aware, during the past year the subject of national oil policy has been a matter for intensive consideration and discussion by the several branches of the government, the public, and the petroleum industry. The immense importance of petroleum in the world today, combined with changing facts and circumstances, has focused the national attention on this important area of the economy. Several committees of the Congress, many high officials of the executive branch, and a number of important groups of citizens have called for prompt formulation and enunciation of the broad principles of sound national oil policy.

However, if such policy is to be informed and in the public interest, it

is essential that the wisdom and experience of the petroleum industry be brought to bear on the subject, and I therefore request the National Petroleum Council . . . to appoint a temporary committee to restudy and supplement the National Oil Policy Report referred to in the Council's resolution of January 13, 1947, and to present its views and recommendations to the Council. It is believed that such a report will be of great service to the various agencies of our government in the executive branch as well as to the Congress.

The policies outlined in this report are designed to promote the welfare and security of our country through the maintenance of a healthy petroleum industry which is essential to this objective.

Respectfully submitted,

*Walter S. Hallanan, Chairman
National Petroleum Council*

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A NATIONAL OIL POLICY FOR THE UNITED STATES

*Formulated by the National Petroleum Council
at the request of the Secretary of the Interior*

INTRODUCTION

AN ADEQUATE SUPPLY of oil is essential to the American standard of living. Oil in increasing quantities will be required in the future to meet the needs of our expanding economy. A prime weapon of victory in two world wars, it is a bulwark of our national security.

Favorable conditions have existed for the growth of the American oil industry—conditions which have made possible its achievements and its many contributions to the nation. The methods and procedures and the regulations and laws relating to oil which have evolved over the years have constituted a national oil policy, the success of which would indicate that its key elements should continue to guide us.

The industry has expressed its position on past occasions. It would now seem in the public interest that the principles of a sound national oil policy should be reappraised and restated. The National Petro-

leum Council, by virtue of its broad representation, the experience of its members in the oil industry, its realization of the great importance of oil and natural gas, and its deep interest in the welfare and security of this country, is pleased to respond to the request of the Secretary of the Interior and present its views as to the aims and essentials of such a policy.

THE AIMS OF A NATIONAL OIL POLICY

To be effective, a national oil policy should have the following objectives:

- 1. It should result in a maximum contribution by the oil industry to an expanding American economy and to a rising standard of living, including stable employment at fair wages within the industry.*
- 2. It should maintain conditions most likely to assure adequate supplies of petroleum in both peace and war.*
- 3. It should maintain conditions, within the free enterprise system, most likely to assure adequate supplies of essential materials equitably available to all units in the industry in both peace and war.*
- 4. It should contribute to the expansion of trade and of industrial activity at home and abroad by encouraging American nationals in the development of both domestic and foreign oil resources.*
- 5. It should operate to strengthen our free institutions by demonstrating that the issues which periodically arise in an industrial democracy, involving the relations of government and private industry, of state and individual, can be successfully resolved within our existing institutional framework.*

To attain these ends, a national oil policy should establish the broad terms under which there will be sufficient flexibility to meet new conditions resulting from technological progress, economic change, and the possible requirements of national emergencies.

The oil industry has been progressive in its support and application of scientific research and in its readiness to meet new demands. A national oil policy must anticipate and provide for the certainty that further progress will create new problems. It should encourage flexibility in the functioning of the industry itself and continued adaptability to new circumstances in time of peace or crisis, which is one of its outstanding characteristics.

FUNDAMENTAL PRINCIPLES

The following general principles are fundamental to a sound national oil policy:

1. The national security and welfare require a healthy domestic oil industry.

Continuing supply to meet our national oil needs depends primarily on availability from domestic sources. Due consideration should be given to the development of foreign oil resources, but the paramount objective should be to maintain conditions best suited to a healthy domestic industry which is essential to national security and welfare. To this end, adequate and equitable availability of essential materials is a fundamental requisite.

2. The public interest can best be served by a vigorous, competitive oil industry operating under the incentives of private enterprise.

The very nature of oil is such that multiple efforts on a very wide scale and initiative in high degree are required in all phases of industry operations from finding to distribution.

The participation by many in the far-flung and diverse activities of the industry provides those multiple sources of initiative, imagination, and responsibility, out of which spring a great variety of discoveries and inventions, new ideas, and tremendous productivity.

The competitive form of economic organization, by offering the promise of reward commensurate with contribution and efficiency, utilizes a motivating force for which no adequate substitute has been found. Other nations have tried other methods, but it is the American oil industry operating under the American system which sets the highest standards of achievement and service.

3. The appropriate functions of federal and state governments in relation to the industry and the principles underlying their present relationships should be maintained.

Under the concepts of the American economy the functions of government with respect to industry are primarily to provide the conditions under which industry may operate with maximum efficiency and to assure that the public interest is safeguarded.

The functions of the oil industry are to discover, produce, and transport oil, and to refine and distribute its products. Participation in such operations is not a proper function of government.

In the exercise of their powers a clear line of demarcation should continue to exist between federal and state governments.

The operation of the American petroleum industry is grounded on state regulations of oil and gas production in the interest of conservation. State regulation under our constitutional system evolved as the legal and most effective answer to the problem of a widely dispersed natural resource. State authorities have proved effective in their pro-

tection of the public welfare, and the decentralized approach has been highly successful in meeting the wide variety of conditions that prevail in different areas.

When oil conservation problems have arisen involving coordination among states, instrumentalities have been developed to deal with them effectively, such as the Interstate Oil Compact to Conserve Oil and Gas, operating with the sanction and aid of the federal government.

4. No government actions specifically affecting the oil industry should be taken without proper regard for the long-term effect and without consultation with the industry.

Mainly because of restrictions brought about by the war, temporary difficulties developed in supplying the sharply increased post-war demand. Some, in both public and governmental circles, gained the false impression that this country was faced with a permanent oil shortage requiring special measures.

Situations of this kind invite the consideration of dangerous expedients. Such measures directed at a single, passing phase of a cycle are not only unnecessary but can be destructive of sound long-range policy.

The oil economy is acutely sensitive to governmental interferences with the free market. As long as a free market prevails, price functions effectively as a regulator of supply and demand, and as an allocator of supply to the channels of greatest need. It also provides the necessary incentives for exploration, increased efficiency, and technological improvement, and permits the capital formation necessary to continued progress.

These conditions assure a vigorous industry prepared to meet a real emergency if it arises. In the two world wars, the industry's readiness was a decisive factor in our victories.

THE ELEMENTS OF A NATIONAL OIL POLICY

The general principles which have been outlined constitute the broad base of a sound national oil policy. In the formulation of that policy consideration should be given to a number of elements, which are outlined herewith under five headings: Domestic Oil, Natural Gas, Foreign Oil, Imports, and National Security.

I. DOMESTIC OIL

1. The key industry function of oil exploration and discovery presents extraordinary difficulties and risks. It is best promoted by competitive effort and by the incentive of commensurate reward.

Undiscovered oil is a present asset to no one.

The natural petroleum potentialities of the United States are very large and oil exists outside the United States in great abundance. When conditions justify, these natural supplies can be supplemented by the vast resources available through synthesis of coal, shale, and natural gas. There will be liquid fuels enough for many generations to come.

Details of policy relating to production, refining, distribution, and utilization of oil become academic, however, unless provision is made to assure that this oil will be found and brought to the surface. The promotion of new discoveries, therefore, must be the primary consideration of national policy. This involves continuing encouragement of private exploration efforts at home and abroad, so that ample sources of oil will be under development at all times for peace or emergency needs.

Finding oil calls for the efforts of a great many people of differ-

ent characteristics. Despite the development of scientific methods, a major factor in discovery is still the willingness of many individuals and competing industry units, exercising independent judgments, to take risks. The chances of finding oil are increased as more people are encouraged to accumulate and venture their capital on their own initiative.

Many government policies have a bearing on exploration efforts, including actions with respect to public lands, tidelands, and tax provisions. These policies should operate to accelerate and not retard exploration.

2. Conservation of our petroleum resources will best be furthered by facilitating continued industry efforts to reduce waste and promote maximum recovery of oil through optimum-rate production, unit operation, secondary recovery, and other methods.

True conservation of our oil resources cannot be achieved by hoarding them in idleness. It is only by active development that the earth's potential wealth is converted into real wealth useful to man. The resulting gain is not only in products. Through the exercise of its human resources society acquires skilled workers and technicians and a vast storehouse of knowledge with which to make further progress.

OPTIMUM-RATE PRODUCTION

Over the past twenty years the industry has developed engineering methods designed to eliminate waste and to increase the recovery from oil fields. This procedure is based on the discovery that the total recovery is greatly augmented when the flow from oil wells is not permitted to exceed maximum efficient rates. Most of the information on which maximum efficient rates are determined has been developed through industry research on the nature of oil-bearing structures and underground movements of oil.

The economic operations of oil fields within the limits of maximum

efficient rates are referred to as "optimum-rate production." The public interest and the private interests of oil operators are equally served by the application of this principle. On the one hand, it assures the consumer of a greater supply of fuel in the long run, and, on the other, it enables the producer to obtain the maximum yield from his properties.

The system of optimum-rate production has been very effectively developed in those states having conservation statutes. Efficient production rates are periodically fixed and revised after public hearings by state regulatory bodies upon the basis of engineering studies and actual operating conditions. Support and extension of this system by the states should be encouraged.

UNIT OPERATION

In oil fields in which more than one operator have interests, and where unit operation would result in greater ultimate recovery, appropriate action should be taken by the states to encourage such operations.

The establishment and operation of unitized pools, which satisfactorily protect the correlative rights of the various operators and royalty owners against the improper and inequitable drainage of their respective reserves by adjacent operators, should be favored. Considerable progress in this direction has been made by voluntary unitization and cooperative agreements.

Where legal obstacles to such arrangements exist, the state laws should be clarified to encourage voluntary cooperative unit plans.

The development of our oil resources can be further encouraged by clarifying federal tax laws with respect to unit operations. Voluntary unit operation of a single reservoir by several operators is clearly in the interest of conservation. Such undertakings should not be taxed as separate business entities, because the effect would be double taxation. The elimination of uncertainties on this score will give further impetus to oil and gas conservation.

SECONDARY RECOVERY

Vast amounts of oil still remain in so-called depleted fields which were developed and produced before modern methods of optimum-rate production became general.

The industry has developed scientific and economic methods of secondary recovery which provide the means of adding vast quantities of oil to our recoverable reserves. Continued research and improvement in techniques are desirable.

UTILIZATION

The efficient utilization of oil products by fuel-burning mechanisms of all kinds and in other applications is important to conservation. The oil industry should continue to cooperate with other industries in seeking the maximum development of oil-saving improvements.

3. Technology is a creative force of major importance in expanding our petroleum resources and in providing adequate supplies of oil at reasonable prices. The competitive conditions under which the industry's great technological advances have been made should be maintained.

The oil industry is a conspicuous example of the extraordinary achievements of American research and technology. In all phases of the petroleum industry they have operated to multiply our resources and lessen costs to the consumer.

Scientific advances in exploration have augmented our ability to locate oil fields. Technology and engineering have increased the quantity of oil which can be recovered from new and old fields. Research has improved the efficiency of refining processes, increasing flexibility in yield and quality and diversity of products. Losses in oil handling and transportation have been greatly reduced. Continual improvements in oil-burning devices of all kinds have the net effect of increasing the quantity of oil available for future use.

Computing barrels of recoverable oil in proven fields is not an adequate measure of the ultimate volume of oil or oil products obtainable. Calculations made in one period are likely to be invalidated later by advances in production, refining, or utilization techniques. In the period between World War I and World War II, research was a major factor in the multiplication of reserves and in the industry's ability to produce aviation fuels, special lubricants, synthetic rubber, toluol, and many other products.

Science and technology can flourish only in a society in which there are intellectual freedom and freedom of expression. Our competitive economy not only provides these conditions, but it stimulates the best efforts of thousands of individuals to pursue independent paths of inquiry unhampered by centralized control.

In the United States, both private and public agencies have provided unexampled research facilities. To the unrestricted individual pursuit of knowledge, American organizational genius has added another factor—the coordination of research, engineering, and development within a company—which reduces duplication of effort and speeds the solution of problems by directed teamwork of scientific workers.

Our patent laws have also played a vital part in encouraging technological progress. They are based on the fundamental principle of disclosure. By offering exclusive rights for a limited time, our patent system provides inducements for the prompt disclosure of new advances and discoveries which, when known to others, become in turn the foundation for new improvements.

4. The economic and efficient development of synthetic fuels to supplement natural petroleum as needed can best be achieved by private industry.

The oil industry through extensive research has provided the tech-

nological basis on which a synthetic fuel industry can be established when conditions require. The furtherance of research and process development by the industry is desirable. Research by governmental agencies should be limited to fundamental studies and to surveys of raw material reserves. The construction of synthetic fuel plants by government intervention would defeat the objectives of an adequate oil supply by impeding the normal functioning of the industry. Synthetic fuels will attain an orderly and economic development by private industry, if normal incentives are free to operate.

5. Oil and gas are only a part of our nation's energy resources. All these resources combined are adequate to meet energy needs; the relative use of each will be determined most effectively by the operation of price in a free market.

A continuance of favorable conditions for private, competitive enterprise will provide American consumers with sufficient energy and power for an expanding economy. There are ample energy resources—coal, crude oil, gas, and water power—to meet our needs for a long time; and price adjustments will regulate the relative use of these resources so that over an extended period the demand and supply of each will be balanced. Present technology makes it possible to convert coal and gas into liquid fuels, thereby appropriately supplementing petroleum for the uses in which liquid fuels are superior. The degree to which this conversion will take place will best be determined by economic considerations which include consumers' evaluation of the relative convenience of liquid fuels.

6. The provisions in tax laws which have long recognized the requirements of petroleum operations are essential to the continued development of our oil resources and, in furtherance of the public interest, should be maintained.

The industry's ability to carry on an intensive and long-range search for new oil and gas fields has been greatly facilitated by federal tax provisions for depletion and for deductions of intangible drilling, geophysical, and geological expenditures.

These provisions help provide the capital necessary for exploration. With the nation's demand for oil increasing, multiple efforts in oil-finding should be stimulated to the fullest possible extent.

7. The petroleum resources of the lands beneath the marginal seas extending to the outer edge of the continental shelf can best be explored and developed under state, rather than federal, control.

Substantial quantities of oil lie under the seas bordering the shores of several states. They constitute one of the most important sources of additional domestic oil supply remaining to be discovered and developed. A prudent oil policy would require that these resources be discovered and developed as soon as possible.

Years of experience have demonstrated that state laws and regulations, designed to provide the necessary incentives and proper conservation practices, and on-the-ground state administration encourage the risk-taking vital to the discovery and development of petroleum resources. Federal laws and regulations, with final authority far removed from the scene of operations, have tended to discourage exploration for oil underlying federal lands and to retard its discovery.

Furthermore, on historic and constitutional grounds and under judicial precedents, the abutting states should own the lands and the resources beneath the marginal sea to the outer edge of the continental shelf inasmuch as any area within or appurtenant to the continental United States is required, under our federal system, to be included in one or more states of the Union. A sound national policy should prompt Congress to confirm in such abutting states the ownership of the lands and subsoil beneath such marginal seas.

8. Continued industry efforts to find and develop oil and gas on federal public lands should be encouraged.

The policy of leasing the public domain for oil and gas exploration can contribute importantly to the efficient development of the nation's oil resources.

The statutes, rules, and regulations which govern these operations have in many instances retarded full development. They should be reviewed with the objective of stimulating further development. Points of improvement include the more expeditious leasing of the lands, the relaxation of acreage restrictions, and the issuance of leases which give management control to the lessee.

9. Conditions should be maintained under which the industry may continue to form the capital required to expand its operations to meet the nation's growing needs for petroleum.

All segments of the oil industry continually require capital to replace obsolete equipment and to expand their facilities and operations. These requirements are increasing as the population grows and the American standard of living is raised to higher levels. The bulk of the capital the industry employs has been created by the industry out of its own operations. Its future needs can best be met under a system of free markets and suitable tax provisions.

In addition, it is important that conditions be such as to encourage the thousands of small operators who are indispensable to a vigorous industry. When all segments of the industry are able to function in an atmosphere of confidence and stability, the extension of credits is facilitated and they are assured of sufficient capital to operate successfully.

10. Efficient marketing of oil and oil products is a major responsibility of the industry. It should continue to support and encourage a system of distribution under which thousands of independent marketers, integrated companies and others compete to bring the industry's products to the consumer.

The oil distributor—both wholesaler and retailer—is the channel through which the industry serves the ultimate consumer.

Most oil distributors are independent businessmen who buy at wholesale. The marketing of petroleum is particularly suited to operations by individuals and small units, and the industry considers that the public interest will be served by continuing to encourage the existing competitive system.

The industry fully recognizes the interdependence of all units in the industry, large and small. It is important to the public and to the industry that the distribution system should be efficient, so that the benefits of progress in all branches of the industry will be passed on to the consumer.

Marketers should be encouraged to increase their service to the public through continued improvement in distribution methods, the opening of new facilities where needed, the introduction of new products, added conveniences, and courteous treatment.

The industry believes that competition for consumer preference is the best way to assure such service.

11. The oil industry is opposed to monopoly and believes that competition contributes to the public good.

The oil industry should operate on a basis which will contribute to the economic progress of the American people and provide needed supplies of oil. This objective requires an adequate productive effort and stable employment of hundreds of thousands of workers. It involves continued technological advance, elimination of waste, and avoidance of violent changes in output and employment.

The industry structure, which consists of many large and small enterprises and operations, has demonstrated its effectiveness under a competitive system which assures the attainment of these objectives.

The industry subscribes to the fundamental principles underlying

the antitrust laws. It recognizes a continuing responsibility to maintain the rivalry in price, quality, and service which promotes technical progress and efficiency and passes on these benefits to the public.

II. NATURAL GAS

1. State and federal laws should encourage, not impede, the development of natural gas resources by industry.

Natural gas is closely associated with oil, and the production of both frequently coincides. Natural gas is assuming an increasingly important role as an energy source, not only for heating but in industrial processes and as a future source of synthetic liquid fuels. It is in the public interest, therefore, that the conservation, efficient production, and use of natural gas should be fostered.

The several states should encourage by appropriate legislation arrangements among producers for the installation and operation of cycling and repressuring projects and other operating means for fostering the conservation and utilization of gas in and from oil and gas reservoirs.

The quantities of natural gas produced by many gas-producing states are in excess of the consumption of gas within those states. It is important, therefore, that the producers of gas have full opportunity to sell gas to interstate carriers for resale by them to local gas distributing companies. Interstate transportation of natural gas and its sale in interstate commerce for resale are under federal regulation. A threat exists that federal regulation will be extended to include control over the production and gathering of gas and the price charged by producers and gatherers. This threat has the effect of discouraging the maximum development of facilities for gas utilization and the production and sale of gas in interstate commerce.

The proper sphere of regulation by federal agencies is interstate

commerce. Such agencies should have no authority to control directly or indirectly the production, gathering, and processing of gas or its price at or prior to its delivery into the main line of an interstate carrier, or to control the local distribution of gas. In carrying out their proper function of regulating the transportation of natural gas in interstate commerce, federal regulatory bodies should apply a formula which would allow an interstate carrier of natural gas to charge for gas delivered through its facilities a price which includes the price paid for the gas it purchased and the market value of the gas it produced.

END-USE CONTROL

It is not the function of the federal government to control the end use of gas any more than it is its function to control the end use of coal, crude oil, cotton, wheat, or other commodities. The Constitution does not confer upon the Congress the power to control end use, and the exercise of such authority would be contrary to American principles. Control over the end use of gas would require control over the end use of other energy resources, which would lead to a vast bureaucracy involving a regimented industry and managed economy.

Gas is in open competition with coal, crude oil, and water power, the other energy resources. In a free economy, competition is the best regulator of the end use of gas. If federal or state authority is extended into this area, private incentives would be restricted and development of the gas industry would be retarded. Furthermore, pressure groups would be encouraged to seek to establish standards or restrictions for their special advantage.

III. FOREIGN OIL

1. The participation of United States nationals in the development of world oil resources is in the interest of all nations and essential to our national security.

The importance of oil to economic and social progress is not confined to the United States. All nations need more oil for industrial development and to raise living standards.

Oil exists in many places in the world. Its efficient production is important both to the country where it is produced and to the world economy. The oil which a nation does not need for its own uses should find its way through the channels of international trade to other countries.

Oil from abroad should be available to the United States to the extent that it may be needed to supplement our domestic supplies. The availability of oil outside of the United States, in places well situated to supply our offshore requirements in time of emergency, is of importance to our national security.

Oil technology has been more highly developed by the United States than by any other nation. American methods and skills have made great contributions to the discovery, development, and conservation of oil resources in other countries. American interests today participate widely in international oil development. Conditions should be fostered that will further this participation but not to the extent that this involves preferential treatment of operations abroad at the expense of the domestic industry.

2. An effective oil policy should encourage access by our nationals to world oil resources on equal terms with other nationals, and stable agreements between foreign governments and private industry on a basis which will promote development by free enterprise methods.

A country's oil resources are best developed when all who are engaged in petroleum operations—its own nationals and those of foreign nations—compete on equal terms. Favored treatment of one group at the expense of another, state monopolies, or state competition in any phase of oil retard maximum development and are not in a nation's long-run interest.

The government of each country and its nationals should respect all valid concession contracts and lawfully acquired rights, and should make no unilateral effort to interfere directly or indirectly with such contracts or rights.

Agreements between foreign governments and private enterprise should define the proper functions of each. They should provide to the companies operating in those countries security of title to the property or rights acquired; managerial control of operations; the opportunity to make a reasonable profit commensurate with the risks originally assumed, and to form capital for expansion; and means for the prompt and fair settlement of disputes that may arise.

Foreign governments in return have a right to expect to participate in the benefits from ventures on their soil. Such participation includes payments of reasonable royalties and taxes. It is also reasonable that foreign countries should expect that their own requirements for oil be satisfied before any oil is exported, that waste be avoided, and that their people receive training and employment at fair wages.

3. The federal government should encourage foreign oil development by American nationals by efforts directed through diplomatic channels to reduce political risks involved in such foreign operations and by permitting United States citizens to operate abroad in conformity with the laws and customs of other countries.

It is in the national interest that American oil companies should continue to take an active part in the development of petroleum resources in other countries.

The federal government, therefore, by diplomatic representations, should exert its influence in behalf of a sound oil policy. It should seek to assure the observance of agreements made between foreign governments and American nationals and to minimize the political risks involved in foreign operations.

If American firms are to do business abroad they must conform to the laws and customs of the countries in which they operate. American companies should not be penalized on occasions when such requirements conflict with the rules laid down for the conduct of business within this country, as long as these operations are consistent with the interests of the United States.

IV. IMPORTS

1. The nation's economic welfare and security require a policy on petroleum imports which will encourage exploration and development efforts in the domestic industry and which will make available a maximum supply of domestic oil to meet the needs of this nation.

The availability of petroleum from domestic fields produced under sound conservation practices, together with other pertinent factors, provides the means for determining if imports are necessary and the extent to which imports are desirable to supplement our oil supplies on a basis which will be sound in terms of the national economy and in terms of conservation.

The implementation of an import policy, therefore, should be flexible so that adjustments may readily be made from time to time.

Imports in excess of our economic needs, after taking into account domestic production in conformance with good conservation practices and within the limits of maximum efficient rates of production, will retard domestic exploration and development of new oil fields and the technological progress in all branches of the industry which is essential to the nation's economic welfare and security.

V. NATIONAL SECURITY

1. The maintenance of a vigorous oil industry in time of peace is the best way to assure the reserves and facilities needed in time of war.

The normal operations of the oil industry, under which oil is produced at optimum rates, provide the United States and other countries with a continuing reserve of potential productive capacity. In the event of a protracted national emergency, during which essential petroleum requirements might increase rapidly, this reserve productive capacity could be drawn upon to satisfy peak demands.

Civilian rationing of oil would be necessary under a war economy, as it would be for most commodities which are needed in large quantities by the armed services. Rationing would provide a large surplus of oil during the early stages of a conflict. Other measures could then be instituted as circumstances dictated. If storage facilities were provided, military stock piles could readily be accumulated out of the surplus to meet such sharply rising requirements as the armed services might anticipate with a mounting pace of operations. In the meantime, reserve productive capacity could be maintained through the continuation or expansion of exploratory efforts. If the need for additional quantities is anticipated, supplemental volumes could be obtained through synthesis of natural gas, oil shales, and coal, for which we have the necessary technological information, although very large requirements of steel and manpower would be necessary.

It is clearly in the interests of national security that peacetime conditions which encourage the development of available reserves by private industry should be promoted. An active program of exploration by the industry is essential. High peacetime requirements for oil create high reserve productive capacity. They result, furthermore, in the competitive development of refining, transportation, and other facilities. The greater the civilian consumption at the outset of a war, the larger will be the supplies available through rationing.

Withholding from development the oil on public lands or in offshore areas, with the thought that it can be used in an emergency is not sound policy in terms of national security. This oil can be made fully

available only by continuous and prolonged peacetime development.

The "locking up" of proven reserves by arbitrarily curtailing existing production, or by acquiring proven oil fields through purchase or condemnation, is unnecessary and would retard the normal development of the industry. Importing oil and storing it in depleted or partly depleted oil or gas fields in the United States is also unnecessary as well as impractical.

A large expansion of reserves can be attained by the active development of foreign sources of supply, particularly those tributary to offshore requirement areas.

2. The government should accumulate such inventories of petroleum products in peacetime as would be needed by the armed services in the early stages of a conflict.

Stock accumulation by the government is desirable to the extent that adequate supplies of products of military specification may be assured for the initial period of a conflict. Stocks of such products should be stored in sufficient quantity to last until conversion of industry facilities or construction of additional facilities can be completed.

Special provision should be made for storing products such as aviation alkylates, which cannot be obtained by simple substitution or process change from civilian products, and products such as tetraethyl lead, for the production of which only a limited number of units now exist.

Stockpiling on a massive scale in peacetime is unnecessary and impractical. If required, petroleum supplies could be accumulated through rationing during the early period of an emergency which, with additional supplies available through increased production and continued rationing, should be sufficient to meet the requirements of such an emergency.

3. Procedures for government-industry consultation should be maintained on a permanent basis so that plans to meet emergencies can be adjusted continually to changing conditions.

The problems of national security with respect to petroleum involve problems relating to our entire economy. They encompass not only military and civilian needs for oil, but questions of supply of other commodities which affect the supply of petroleum.

It is impossible at this time to evaluate, except in general terms, the problems of an unknown future. Attempts to anticipate all the needs of protracted war would tend to establish rigid patterns which could seriously affect the economy and strength of the nation. Wise policies and appropriate actions must evolve out of constant study of changing factors.

The soundest procedure is to direct studies principally to the immediate and short-term requirements of an emergency. The existing Military Petroleum Advisory Board should continue to function. Among the problems for consideration are: the time required to expand military supplies and contract civilian consumption; the rapidity of increase in requirements of particular military products in relation to expansion of special facilities to produce them; the interrelationship of production, refining, and transportation facilities under initial war conditions; the relative vulnerability of facilities for the production of particular products; the wartime availability of materials and manpower required to sustain or increase production; and plans for providing storage capacity to accumulate military stock piles during the early period of a war.

Provisions to deal with these problems can be worked out in advance after careful study of alternatives so that unnecessary or uneconomic actions will be avoided.

In the event of another war, the experience of World War II will provide a basis for its successful prosecution. The pattern of govern-

ment-industry cooperation through the Petroleum Administration for War and the Petroleum Industry War Council is suggested. An oil industry which has continued to progress under a sound national oil policy would again be prepared to throw all its resources, facilities, and manpower to the nation's defense.

CONCLUSION

The American oil industry is distinctively a product of the American way of life. For many years it has operated under one of the most effective and efficient industrial policies in our economy.

The industry will continue to produce the optimum economic and social gains inherent in the nation's petroleum resources, granted the conditions of a free economy and continued recognition of the economic laws which direct its operations.

If, in addition, the United States government through diplomatic efforts is able to reduce the political risks inherent in foreign operations, American nationals with their capital, managerial skill, and technical knowledge can be counted on for increasingly important contributions to world recovery and peace.

Vigorous oil development under competitive conditions at home and abroad is the best way to assure our national security.

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