

THE OIL IMPORT PROBLEM DURING THE TRUMAN  
AND EISENHOWER ADMINISTRATIONS

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ROLAND W. DOTY, JR.

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Approved by:

*Robert H. Vance*  
Major Professor

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## INTRODUCTION

During the Truman Administration the United States, for the first time since the early 1920's, imported more petroleum than it exported. This was a concern to the small producer of domestic crude oil since his oil could not be sold if foreign oil were imported in excessive quantities and he would be driven out of business. Governments were his friends as well as his enemies. State regulatory agencies acted in harmony with the Department of Interior and protected the small producer, as well as the large one, from competitive conditions that would lower the price of petroleum. At the same time the State Department negotiated reciprocal trade agreements and acted in partnership with large international oil companies in obtaining concessions in foreign countries to produce oil.

In the courts the Justice Department, during the period 1952 to 1968, took legal action against several large oil companies for monopolizing and controlling oil imports. Although the companies were not convicted, such control apparently did exist, at least prior to the initiation of court action, and consent judgments were obtained to stop the monopolization of oil imports.

Congressmen from oil producing states, during the Eisenhower Administration especially, were able to have amendments attached to the extensions of the Reciprocal Trade Agreements Act, that promoted the possibility of governmental restrictions on oil imports. The Executive Branch under Eisenhower reluctantly took

the position that imports had to be restricted in order to maintain a healthy domestic oil industry in the interest of national security. Oil imports had increased to the point where the Texas Railroad Commission had practically shut down oil production in Texas because of an alleged oversupply. Restrictions rested upon the position that foreign oil should supplement but not supplant domestically produced oil, a position that was in harmony with much of the Federal policy under Truman.

The authority to allocate oil import quotas under Eisenhower gave the Federal government the power to introduce interlopers into the foreign oil market. These newcomers were given quotas large enough to introduce competitive conditions into oil importing. Initially quotas were advantageous to the big importers who maintained their large shares of the importing pie, based upon past importing and foreign oil producing assets. When restrictions were voluntary, it even occurred to Attorney General William P. Rogers that the large international oil companies might take private retaliatory measures against smaller importers that imported in excess of their assigned voluntary government quotas. This would put the Federal government in the impossible position of fostering monopolistic activity. However, during President Eisenhower's second term newcomers took over the largest share of the oil importing market. Quotas were given newcomers and the large integrated oil companies suffered cuts in their quotas.

Under Truman, strategic military considerations supported oil importation and the development of foreign oil resources.

Under Eisenhower, it was concern for strategic military matters that was a main basis first for voluntary and then compulsory oil import quotas. Failure of some newcomers to comply with voluntary quotas helped bring on compulsory quotas because of the conflicts with anti-trust laws.

The system of domestic regulation of production to meet demand discouraged true competition, but the system withstood assaults in Congress during the Truman and Eisenhower Administrations. The large international oil companies that controlled importing withstood anti-trust prosecution in courts but they were required to agree to cease monopolistic activities.

In the last days of the Eisenhower Administration an Executive Order was signed that gave flexibility to oil import quotas so that importing could be regulated to meet demand, essentially giving the same type of protection to imported oil that was afforded to domestically produced oil.

PART I THE TRUMAN ADMINISTRATION

## CHAPTER 1

## THE DOMESTIC SCENE IN OIL PRODUCTION

On the domestic scene the independent oil producer wielded strong political power through Congressmen from the oil producing states. The lobbyist organization concerned most with opposition to foreign oil importation was the Independent Petroleum Association of America. The IPAA was one of the chief instruments of the political power of the independents and one of the main contact points between the independents and their Congressional representation.

The IPAA was organized in 1929 when imports of oil from South America and Mexico were a concern to independent domestic producers of oil.<sup>1</sup> Foreign oil competed with domestic oil by increasing the total available supply and the IPAA represented the interests of those engaged entirely and exclusively in the domestic production of oil.<sup>2</sup> Throughout this study no other organization was so singular in its opposition to the importation of petroleum. In hearings before Congressional committees during the Truman Administration, the legal counsel of the IPAA, Russell B. Brown, testified in opposition to oil imports. According to the Congressional Quarterly for 1947, his salary

<sup>1</sup>House, Committee on Ways and Means, Hearings, 1945 Extension of Reciprocal Trade Agreements Act, II (Rev.), 79th Cong., 1st Sess., 1945, 2423. Testimony of Russell B. Brown, legal counsel of the IPAA.

<sup>2</sup>Ibid., Hearings, The Operation of the Trade Agreements Act and the Proposed International Trade Organization, pt. 2, 80th Cong., 1st Sess., 1947, p. 853. Testimony of Russell B. Brown.

for representing the interests of the IPAA was \$30,000. in 1947.<sup>3</sup> He wrote a monthly column on political matters of interest in the organization's publication, the Independent Petroleum Association of America Monthly and was part of the IPAA staff in Washington, D. C.

That the IPAA attracted the interest of political leaders in oil producing regions was indicated at the organization's mid-year meeting in 1951. Five governors of oil producing states appeared at a session devoted to "Oil Empires for the Future."<sup>4</sup>

While the IPAA was one of the chief privately organized instruments of political power for the independents, the chief legal instrument that enabled the independents to conduct an orderly, nation-wide economic enterprise, was the Interstate Oil Compact.

During the 1930's a large number of oil fields were developed in Oklahoma and Texas. Much of the production of oil was by small operators, and there were present in any oil field numerous ownerships. Many of these operators were intent upon the "law of capture" which made it advantageous to produce oil as quickly as possible so as not to lose oil to competitors operating over the same field. Such methods of operation led to instability in the market since production was not related to

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<sup>3</sup>(Washington, D. C., 1948), p. 762.

<sup>4</sup>Frank B. Taylor, "IPAA Program and Policy Gains Strength," The Independent Petroleum Association of America Monthly, XXII, No. 2 (June, 1951), 17.

demand. There were recurring periods of feasts when the markets were flooded with low-price oil, and famines when fields were exhausted. Anti-trust laws prevented the cooperation of operators to control production. Such production was wasteful, since too rapid production prevented extraction of all of the oil in a particular field and lead to evaporation of oil when stored for lengthy periods above the ground.<sup>5</sup>

The Interstate Oil Compact was entered into in 1935 by a number of oil producing states, acting together, to conserve oil, prevent its waste, and aid the petroleum industry in achieving a stable situation. The Congress gave consent to the compact in 1935. It was extended periodically.

President Truman requested Congress to extend the compact in 1947. At that time, in reply to a routine request of the Bureau of the Budget for advice on the extension, the Assistant to the Attorney General, Douglas W. McGregor, replied that there was nothing in the compact which would enable the states to limit the production of oil or gas for the purpose of stabilizing or fixing prices to create monopoly or to promote regimentation.<sup>6</sup> However, four years later during debate over extension of the compact the Acting Assistant Attorney General, Newall A. Clapp,

<sup>5</sup>Hiram M. Dow, "The Conservation of Oil and Gas," Proceedings, Twenty-Seventh Annual Meeting, American Petroleum Institute, Vol. 27, Sect. I (1947), 49-51.

<sup>6</sup>Letter from Douglas W. McGregor, Assistant to the Attorney General, to James E. Webb, Director, Bureau of the Budget, July 9, 1947, White House Bill File, Papers of Harry S. Truman, Harry S. Truman Library, Independence, Missouri. Cited hereafter as Truman Papers.



indicated in a letter to Representative John W. Heselton of Massachusetts, on July 9, 1951, that the Department of Justice never felt under any obligation to investigate the activities of the states as to whether the express purpose of the compact had been fulfilled.<sup>7</sup> No opposition to the 1951 extension of the compact was expressed by any agency of the Federal government. There were questions, though, as to the motives of the oil producing states in controlling the production of oil. Representative Charles A. Wolverton of New Jersey indicated in the debate on the extension of the compact in 1951: "No legislation should be passed under the guise of conservation which has for its purpose or effect an increased price to the consumer, or that permits under the guise of stabilization a loss of the beneficial effect of supply and demand and open competition."<sup>8</sup>

Congressman Heselton proposed an amendment to require the Attorney General to make a continuing study to insure that the compact was promoting conservation rather than limiting production to maintain high prices. The amendment was defeated 58 to 6.<sup>9</sup>

The compact was criticised in a report of the Federal Trade Commission in 1952, and the Interstate Oil Compact Commission published and distributed a pamphlet titled "Reply to the Staff Report to the FTC on the International Petroleum Cartel" in which the pact was defended.<sup>10</sup>

<sup>7</sup>Congressional Record, 82d Cong., 1st Sess., 1951, XCVII, pt.

8, 10488.

<sup>8</sup>Ibid., 10486.

<sup>9</sup>Ibid., 10486, 10492.

<sup>10</sup>December 6, 1952, p. 2

The Interstate Compact Commission itself did not control the production of oil, but acted as a central forum where governors, members of state regulatory bodies, representatives of Federal agencies, and representatives of industry could meet to consider the various phases of conservation. The actual setting of allowable production for each oil well (called prorationing) was done by the separate state regulatory bodies.<sup>11</sup> The compact was the agreement among the states that provided for control of production by individual states.

While not controlling production, the compact provided for the control of domestic production, but contained no provision for the control of foreign production of oil for sale on the American market. This lack was not important until foreign oil became significantly competitive in the American market.

The basic method of proration of total domestic oil production developed under the Interstate Oil Compact included:

- a. Preparation by the Bureau of Mines of the Interior Department of a monthly forecast of the total quantity of domestic crude oil which, added to expected imports, would supply the quantity of oil estimated to be needed for domestic use and export.
- b. Consideration by state authorities of those estimates

<sup>11</sup>House, Committee on Interstate and Foreign Commerce, Hearings, Interstate Oil and Gas Compact, 82d Cong., 1st Sess., 1951, pp. 13-14; 33. Testimony of Allan Shivers, Chairman, Interstate Oil Compact Commission.

in determining the total allowable production for their states.

c. Allocation by each state authority of its allowable production to the various producing fields and wells within its jurisdiction.<sup>12</sup>

In Texas, the principal oil producing state, the Texas Railroad Commission conducted periodic hearings before setting oil production for the state and for the individual wells. The Texas Railroad Commission was subject to influence by pressure from the Federal government in deciding upon allowable production. The commission increased Texas production in 1946 after Ralph K. Davies, Deputy Petroleum Administrator for War, sent a telegram to the commission placing responsibility for "the threatened partial immobilization of the Navy" on shortages of fuel oil caused by the Texas Railroad Commission.<sup>13</sup> In 1949, during a period of oil shortage, the State Department issued a statement claiming that the Texas Railroad Commission had reduced production inordinately.<sup>14</sup>

Conservation, however, was the announced purpose of the commission and was the basis for many decisions. In 1948, for

<sup>12</sup>Senate, Select Committee on Small Business, International Petroleum Cartel, Staff Report to the Federal Trade Commission, submitted to the Subcommittee on Monopoly of the Senate Select Committee on Small Business, 82d Cong., 2d Sess., 1952, p. 214. Cited hereafter as Staff Report to the FTC.

<sup>13</sup>"Texas Yields to Pressure and Boosts Crude Production," The Oil and Gas Journal, XLIV, No. 50, (April 20, 1946), 10.

<sup>14</sup>Congressional Record, 81st Cong., 1st Sess., 1949, XCV, pt. 16, A5624.

instance, the commission ordered a halt or limitation of production in seventeen oil fields as punishment for the wasteful practice of flaring natural gas.<sup>15</sup>

The activity of the Texas Railroad Commission is important to the question of oil import restrictions since the sharp drops in allowable state production that accompanied large increases in oil imports in 1958 coincided with action by Congress to set up machinery that would result in restrictions on oil imports by the Executive Branch, as will be dealt with later in this study.

The system of controlling domestic production that was based upon demand and simply allowed for "expected imports" without controlling those imports was workable only so long as foreign oil was not an important factor. After large production of oil began in the Middle East, that defect became apparent.

It was the small independent producer that was most dependent upon state prorationing since the system assured him of a stable market and protected him from ruinous competition.

Small independent companies are far more important in the producing branch of the industry than in refining and marketing. In 1940, in addition to the many hundreds of individuals who owned oil wells, there were 4,444 corporations engaged in producing crude petroleum and natural

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<sup>15</sup>Leigh S. McCaslin, Jr., "No Opposition Has Developed to Order Closing 17 Texas Fields," The Oil and Gas Journal, XLVII, No. 29, (November 18, 1948), 48.

gas.<sup>16</sup> The system of land tenure in the United States was favorable to the production of oil by small producers in that the minerals beneath the soil belonged to the owners of usually small parcels of land over the minerals. In foreign countries the minerals belonged to the governments or to large land owners, and were exploited by agreements among governments, corporations and large land owners, or by the government itself.<sup>17</sup>

In the United States, the large integrated oil companies were very much involved in crude oil production, but less so than in transportation, refining and marketing. In 1938 the majors owned 47 percent of crude oil production. At the same time, they owned 72 percent of oil pipe-lines that carried crude oil and 94 percent of pipe-lines that carried refined products. In 1946 about 88 percent of oil refining capacities were owned by the majors.<sup>18</sup> The independents were thus dependent upon the major oil companies for the sale of their crude oil. If the majors imported crude oil rather than purchase it from the independents, the independents naturally suffered. As foreign oil became competitive with domestic oil, state regulatory bodies

<sup>16</sup>Senate, Special Committee Investigating Petroleum Resources, Hearings, The Independent Petroleum Company, 79th Cong., 2d Sess., 1946, p. 526. Statement of William H. England, Chief Economist, Federal Trade Commission.

<sup>17</sup>Ibid., Hearings, Wartime Petroleum Policy Under the Petroleum Administration for War, 79th Cong., 1st Sess., 1945, p. 116. Statement of William B. Heroy, Director of Foreign Production Div., Petroleum Administration for War.

<sup>18</sup>Hearings, The Independent Petroleum Company, op. cit. (above, note 16), p. 141 (for testimony of D. Harold Byrd, President of Independent Petroleum Assn. of Texas); p. 526 (for William H. England testimony).

reduced domestic production in order to prevent an oversupply of oil.<sup>19</sup> As this occurred the domestic oil producers sought relief by governmental action. During the Truman Administration in testimony before Congressional committees the plight of the domestic producers was expressed by officials of the domestic companies, by officials of the Independent Petroleum Association of America and its state affiliates, and by congressmen and governors from oil producing states. They often opposed extensions of the Reciprocal Trade Agreements Act and sought increased tariffs on oil imports or quotas for oil imports.<sup>20</sup>

There was at least one representative of the domestic producers, however, that was objective in his views on oil imports. Alfred Jacobsen was the president of Amerada Petroleum Corporation, an independent company engaged solely in the domestic production of crude oil and natural gas with main offices at Tulsa, Oklahoma. The company had no pipe lines, refineries, or

<sup>19</sup>Senate, Subcommittee of the Committee on Labor and Public Welfare, Hearings, Causes of Unemployment in the Coal and Other Specified Industries, 81st Cong., 2nd Sess., 1950, pp. 247-248 (for testimony of Willard L. Thorp, Assistant Secy. of State for Economic Affairs); 499 (for Russell B. Brown testimony).

<sup>20</sup>See hearings and reports, 1945-52, for: the House Subcommittee on Oil Imports to the Select Committee on Small Business; the House Special Subcommittee on Petroleum Investigation of the Committee on Interstate and Foreign Commerce; the House Select Committee on Small Business; the House Committee on Ways and Means (on extensions of the Reciprocal Trade Agreements Act); the Senate Committee on Finance (on extensions of the Reciprocal Trade Agreements Act); and the Senate Special Committee Investigating Petroleum Resources.

marketing organization. Jacobsen testified before a congressional committee that foreign operations of American companies were beneficial to the development of undeveloped countries, and that such operations created demand for American products. He spoke in favor of the Anglo American oil treaty (generally opposed by independents) and felt that oil imports were necessary to meet our needs. Probably related to Jacobsen's broad viewpoint was his membership on the Petroleum Industry War Council and his official activities with the Departments of State and Interior in negotiating the Anglo American Oil Agreement (never ratified).<sup>21</sup>

<sup>21</sup>Hearings, The Independent Petroleum Company, op. cit., (above, note 16), pp. 377, 379, 388, 394, 400. For further objective testimony of Mr. Jacobsen see: House Subcommittee of the Committee on Interstate and Foreign Commerce, Hearings, Final Report of the Petroleum Administration for War, 79th Cong., 2nd Sess., 1946, pp. 60, 63, 81, 83.



## CHAPTER 2

THE LARGE INTEGRATED OIL COMPANIES  
WITH FOREIGN OIL CONCESSIONS

Large integrated oil companies with investments in foreign production were of course interested in the right to sell foreign oil on the American market.<sup>1</sup> At the end of 1948, investments abroad of United States oil companies were over \$3 billion or about twenty-seven percent of total American direct investments of \$11.4 billion in foreign industry.<sup>2</sup> In 1950 almost all of the oil shipped into the United States was imported by eleven American companies, most of which engaged in foreign oil production through subsidiaries. Although their chief domestic interest was in refining, they were involved also in domestic production.<sup>3</sup>

The attitude of the large companies towards the prospect of governmental oil import restrictions was complex. Rather than a black and white issue, the majors were probably more concerned about what form restrictions would take and the fact

<sup>1</sup>A fully integrated oil company is one engaged in the production, transportation, refining and sale of oil and gasoline.

<sup>2</sup>Roger R. Sharp, "America's Stake in World Petroleum," Harvard Business Review, XXVIII, No. 5 (September, 1950), 25.

<sup>3</sup>Buel W. Patch, "Oil Imports," Editorial Research Reports, II, (1950), 533. The 11 companies were the Atlantic Refining Company, Cities Service Co., Gulf Oil Corp., Shell Caribbean Petroleum Co., Shell Oil Co., Sinclair Oil Co., Socony-Vacuum Oil Co., Standard Oil Co. of California, Standard Oil Co. (Indiana), Standard Oil Co. (New Jersey), and Texas Co.



that the government would be able to modify the import system according to its philosophy regarding competition, conservation, trade, and the national welfare. Although generally in opposition to governmental curtailment, importing companies did not want to see the American market flooded with imports to the extent that their own domestic producing facilities would become less profitable. Their interests in the oil import issue were not one sided. In testimony before congressional committees, officials of the importing companies opposed restrictions of imports by the government, but indicated that their own interests would prevent them from promoting excessive imports. If imports were excessive there would be an oversupply of oil and prices would decline.<sup>4</sup>

The Federal Trade Commission released a staff study in 1952 in which it was maintained that seven oil companies dominated world oil production and set prices. The report stated that prior to World War II the price of oil anywhere in the world was determined by adding freight costs to the market price oil was receiving at Gulf of Mexico ports. This meant that oil sold in Europe would be sold at the price on the gulf plus freight from the gulf to Europe, regardless of where the oil was

<sup>4</sup>House, Select Committee on Small Business, Hearings, Effects of Foreign Oil Imports on Independent Domestic Producers, pt. 1, 81st Cong., 1st Sess., 1949, pp. 110-111. Testimony of Eugene Holman, President, Standard Oil Co. of New Jersey. Also, U. S., Congress, Senate, Special Committee Investigating Petroleum Resources, Hearings, Petroleum Requirements - Post War, 79th Cong., 1st Sess., 1945, p. 68. Testimony of Robert E. Wilson, Chairman of the Board, Standard Oil Co. (Indiana).

actually produced. The reasoning behind this was that Texas and Venezuela (in the same general area) were the main sources of oil and the central marketplace.<sup>5</sup> The trade journal from which the "base prices" were derived was Platt's Oilgram Price Service published at Cleveland, Ohio. Since the oil companies used Platt's Oilgram as a central reference in setting prices and since the quotations in Platt's Oilgram were in turn obtained from the companies themselves, competition would result only to the extent companies would underbid quotations in Platt's Oilgram, which was rarely done.<sup>6</sup>

As was indicated earlier in this paper, the production of oil in Texas was adjusted to market demand by the Texas Railroad Commission and by the companies themselves. The companies and the commission could regulate production in Texas and therefore control the price of oil in Texas. The basing point for determining the world price of oil was essentially gulf ports in Texas. Therefore the production and pricing of oil all over the world was controlled by the large companies that had significant operations in Texas, and by the Texas Railroad Commission. The large companies could easily win any price war. The trend in oil prices under the system is indicated in Chart No. 1 in the Appendix (prices during World War II were controlled by the Federal government).

After World War II oil production in the Middle East rose

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<sup>5</sup>Staff Report to the FTC, pp. 352-355.

<sup>6</sup>Staff Report to the FTC, pp. 350-354.

sharply, from 4.8 percent of total world crude oil production in 1940 to 12.2 percent by 1948. After the critical supply shortages of 1945-47 began to ease, the increased production of oil in the Middle East could be absorbed only in the major consuming areas of Western Europe, and later in the United States.<sup>7</sup> A small adjustment was made in the pricing formula when the large American oil companies operating in the Middle East sold oil in Europe. Caribbean or Texas gulf prices were used, plus freight from the Caribbean area to Europe, but freight from the Middle East to delivery point in Europe was deducted from that figure - a minor adjustment. Customers in Europe therefore obtained almost no benefit in price in using nearby Middle Eastern oil rather than United States or Venezuelan oil. The companies were intent upon keeping the world price of oil tied to high production costs in Texas regardless of the actual costs of production in the Middle East.<sup>8</sup>

<sup>7</sup>Staff Report to the FTC, pp. 361.

<sup>8</sup>In July, 1948, in a telegram to Senator Joseph C. O'Mahoney of Wyoming, an official of Standard Oil of New Jersey explained the company's pricing practices on transactions in Europe financed by the European Cooperation Administration, a United States Agency: "Our announced f.o.b. prices for crude oil supplies at the Eastern Mediterranean or Persian Gulf are equivalent to the Caribbean price for crude plus freight at established United States Maritime Commission rates from the Caribbean to western Europe less freight on the same basis from either the eastern Mediterranean or the Persian Gulf depending on the supply point to western Europe . . . Our products supplied from the United States Gulf are priced at the low of Platt's posted Oilgram prices. Our products supplied from the Caribbean, which is the major supply source, are sold f.o.b. Caribbean at Platt's low United States Gulf price . . . For the relatively small amount of products moved from our supply sources in the Persian Gulf to European countries, our price f.o.b. Persian Gulf is either the low of Platt's Oilgram United States Gulf price or such lower price as will afford the purchaser as low a delivered cost as is obtainable from the lowest competitive source." As quoted Senate, Subcommittee of the Select Committee on Small Business, Hearings, Impact of Monopoly and Cartel Practices on Small Business, 82d Cong., 2d Sess., 1952, pp. 141-142.

The majors operating in the Middle East could not import Middle Eastern oil into the United States during this period without creating the logically untenable situation of selling Middle Eastern oil to European customers (Platt's Oilgram prices plus freight from Gulf-Caribbean area to Europe) at a higher price than when selling Middle Eastern oil to United States customers (Platt's Oilgram prices plus a small freight charge from Gulf-Caribbean area to point of delivery in the United States). Nevertheless this did happen. The companies in late 1950 imported Middle Eastern oil into the United States at a price less than they were charging for Middle Eastern oil sold to the European Cooperation Administration in Europe. The ECA therefore claimed that they had been overcharged for Middle Eastern crude oil. The Mutual Security Administration (formerly named ECA) submitted the matter to the Department of Justice. On March 28, 1952, the Department of Justice sent demand letters to each of the companies involved, requesting a total refund to the United States Government of over \$50 million. At the same time MSA asked the companies for a lower price for Middle Eastern oil. By the middle of 1952 the companies made it clear that they had no intention of either making a refund or reducing prices.<sup>9</sup> The international petroleum cartel did not break ranks even under such pressure.

Most of the information about activities of the inter-

<sup>9</sup>Ibid., Hearings, Impact of Monopoly and Cartel Practices on Small Business, p. 146. Statement of C. Tyler Wood, Acting Deputy Director for Mutual Security, Mutual Security Agency.

national petroleum cartel was contained in the staff report to the Federal Trade Commission.<sup>10</sup> That staff report was prepared by the Petroleum Section of the Division of Economics of the Federal Trade Commission. Much of the motive in preparation of the report was in harmony with policies of other offices of the Executive Branch during the Truman Administration: the promotion of oil imports to meet the increasing demand for oil in the United States. A memorandum to Stephen J. Spingarn, FTC Commissioner, from Corwin D. Edwards, Director of the Bureau of Industrial Economics, indicated:

In considering the monopolistic problems that arise in the petroleum industry, the Petroleum Section . . .  
[of FTC] was impressed by the fact that the supply of petroleum and its products available in the United States depends to a substantial extent on production in the Caribbean and the Middle East, and that this dependence is likely to increase . . . . The Section could make a prima facie showing that the conditions of supply in Venezuela and the Middle East were substantially affected by arrangements between the large international oil companies, and that these arrangements had the results of establishing an artificially high price structure for Middle Eastern

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<sup>10</sup>Wall Street Journal, August 25, 1952, p. 2.

petroleum.<sup>11</sup>

In June, 1952, President Truman directed the Department of Justice to institute grand jury proceedings to determine whether or not the large international oil companies had violated the antitrust laws of the United States.<sup>12</sup> Upon recommendation of the National Security Council Truman stopped the grand jury proceedings as related to criminal charges, a few days before the end of his administration, on the ground that to seek a criminal indictment at that time involved too great a risk to the global interests of the Nation.<sup>13</sup> Civil proceedings continued on into the Eisenhower Administration, however, and the Justice Department filed a complaint on April 21, 1953, against Standard Oil of New Jersey, Socony-Vacuum, Standard Oil of California, the Texas Company and Gulf Oil. Included were charges that those companies had a continuing agreement to:

<sup>11</sup>Dated May 23, 1952, folder titled "FTC - International Petroleum Report File 1952-53," Papers of Stephen J. Spingarn, Commissioner, Federal Trade Commission, Harry S. Truman Library, Independence, Mo. Cited hereafter as Spingarn Papers. An attachment indicated that all of the information in the draft report came from the files of the oil companies themselves, or from published sources.

<sup>12</sup>Memorandum (for the file) of Stephen J. Spingarn, February 12, 1953, folder Oil Report, Vol. IV, FTC - 1953, Spingarn Papers.

<sup>13</sup>In reference to the decision to drop criminal proceedings, Stephen Spingarn wrote to Senator Guy M. Gillette that members of the NSC were "the unconscious victims of the world-wide propaganda campaign of the oil companies and their public relations experts in what I have described . . . as one of the biggest 'snow jobs' in history." See letter from Spingarn to Gillette, January 21, 1953, folder Oil Report, Vol. IV, FTC - 1953, Spingarn Papers.



- a. Cause domestic production of petroleum to be restricted in amounts related to importation of petroleum in order to maintain world prices agreed upon by the defendants.
- b. Control imports of petroleum into the United States.
- c. Exclude other companies from the opportunity to import oil into the United States.
- d. Prevent sale of foreign-produced petroleum to competitors.

The complaint claimed that commerce had been restrained and imports of petroleum and petroleum products controlled and monopolized, in violation of the Sherman Antitrust Act.<sup>14</sup> The case was never tried, but after long delays in 1960 several defendants, including Standard Oil of New Jersey and Gulf, entered into consent settlements under which they were enjoined from engaging in restrictive practices for a period of twenty-five years. Standard Oil of New Jersey also agreed to a division of the assets of Standard Vacuum Oil Company between itself and the co-owner, Socony Mobil Oil Company.<sup>15</sup>

<sup>14</sup>Complaint, U. S. v. Standard Oil Co. (New Jersey), Socony-Vacuum Oil Co., Standard Oil Co. of California, The Texas Company, and Gulf Oil Corp., Civil Action No. 1779-53, filed April 21, 1953, U. S. Dist. Court, Dist. of Columbia.

<sup>15</sup>Department of Justice, Press Release, June 20, 1963.

## CHAPTER 3

## TRUMAN ADMINISTRATION POLICIES ON OIL IMPORTS

The Truman Administration was consistent in its promotion of oil imports as a part of our entire program of expanded international trade in the interest of the world's peace and prosperity. Immediately after World War II the State Department became active in foreign areas in assisting the large oil companies in obtaining concessions, and negotiated with foreign governments to obtain reciprocal trade agreements. The Department of Interior was consistent in its advocacy of increased use of foreign supplies, and the National Military Establishment saw foreign supplies as essential to global operations. Even the FTC Staff Report that attacked the large international oil companies was originally motivated by a desire to increase the available foreign supply of oil at fair prices. President Truman strongly expressed opposition to the restrictions of oil imports. However, most statements of position by members of the Administration included recognition that imports should supplement but not supplant domestic production. Since oil imports during the Truman Administration had not yet become large enough to injure the domestic oil producing industry, the encouragement of importing appeared logical. With an expanding industrial economy, imports appeared imperative.

President Truman supported the extension of the Reciprocal Trade Agreements Act. The act came up for extension in 1945,



1948, 1949 and 1951, and gave the President authority to enter into trade agreements with foreign countries to reduce tariffs. Representatives of independent domestic oil companies appeared at Congressional hearings in opposition to extension of the trade act (or to favor a weakened act), while Administration spokesmen testified in favor of the liberalization of international trade. Independents believed that lowering of tariffs would bring in large quantities of foreign oil which would put them out of business and threaten our national security by making us dependent upon foreign oil.<sup>1</sup> On the other hand, officials of the State Department testified that enduring peace and prosperity were dependent upon the economic cooperation of the nations. The policies formulated by Cordell Hull were supported and restrictions on foreign trade were pointed to as one cause of the economic chaos of the 1930's.<sup>2</sup> By reciprocal trade agreements, the negotiations for which were authorized by the act, import duties on oil had been nearly eliminated.

As a result of the Venezuelan Trade Agreement (1939), the Mexican Trade Agreement (1943), and the General Agreement on Tariffs and Trade (1947), the excise tax on oil imports had

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<sup>1</sup>For a summary of the Independents' views of the Act see testimony of Russell B. Brown in U. S., Congress, House Committee on Ways and Means, Hearings, 1945 Extension of Reciprocal Trade Agreements Act, II (Rev.), 79th Cong., 1st Sess., 1945, 2422-35.

<sup>2</sup>Ibid., Hearings, 1945 Extension of Reciprocal Trade Agreements Act, I (Rev.), 79th Cong., 1st Sess., 1945, 10-11.

been reduced to fifty percent of the 1932 rate. Late in 1950 the Mexican Trade Agreement was abrogated by Mexico because of an unfavorable balance of trade, and the duties and quota system that had been in force from 1939 to 1943 were temporarily reinstated. But on October 11, 1952, the Venezuelan Trade Agreement was revised and excise taxes on imports were further reduced. In 1953, the excise rate on petroleum imports was about 4.3 percent of value as compared to a rate of twenty-five to thirty percent during the depression years.<sup>3</sup>

The Administration negotiated with other countries for the lowering of trade barriers to promote peace and prosperity, and was, of course, opposed to the setting up of additional barriers to oil imports. In addition to supporting domestic policies to promote trade, the State Department adopted the "open door" policy in reference to the international oil trade. The "open door" policy included the availability of ample oil supplies in international trade on a nondiscriminatory basis, recognition of the economic interests of the producing country, the respect for valid concession contracts and lawfully acquired rights, and the removal of restrictions inconsistent with the orderly conduct of international trade.<sup>4</sup> In past years, the

<sup>3</sup>Sebastian Raciti, The Oil Import Problem (New York, 1958), pp. 26-28.

<sup>4</sup>Senate, Special Committee Investigating Petroleum Resources, Hearings, American Petroleum Interests in Foreign Countries, 79th Cong., 1st Sess., 1945, p. 9. Testimony of Charles Rayner, Petroleum Adviser, State Department.

State Department had worked in partnership with American companies in obtaining concessions. Between the world wars, there were specific instances of diplomatic intervention to be found in the acquisition of concessions in Bahrein Island and in the Sheikdom of Kuwait. The State Department overcame opposition by the British government to the operation of American oil companies in the Middle East during the 1920-28 period. American participation in the development of one of the world's largest oil fields in Iraq was secured with the "strong, consistent and frequently insistent pressure brought to bear by the Department."<sup>5</sup> In 1945 the department appointed some 13 or 14 petroleum advisers or attachés to important points world-wide to assist the ambassadors in handling oil problems.<sup>6</sup> The State Department maintained that both the political stability and economic well-being of the Middle East depended upon the extent and prosperity of its oil industry.<sup>7</sup> The State Department opposed public release of the FTC staff report on the international petroleum cartel on the ground that release of the report might injure our relations with certain foreign interests.<sup>8</sup>

As Secretary of Interior and as Petroleum Administrator

<sup>5</sup>Ibid., p. 23, Rayner statement.

<sup>6</sup>Ibid., p. 26, Rayner testimony.

<sup>7</sup>Senate, Committee on Labor and Public Welfare, Causes of Unemployment in the Coal and Other Specified Industries, 81st Cong., 2nd Sess., 1950, Rept. 2042, p. 15.

<sup>8</sup>Wall Street Journal, August 25, 1952, p. 2.

for War, Harold L. Ickes supported the international operations of American oil companies since he believed that foreign oil sources would be necessary to supply our growing industrial needs. In his "Hail and Farewell" address before the American Petroleum Institute he redefined the "open door" policy. He denounced the Red Line Agreement whereby the oil cartels had formerly divided exclusively among themselves, by a treaty-like agreement, the great oil reserves of the Middle East. Ickes said the "open door" meant free and open competition. He supported the policy that foreign oil should supplement but not supplant domestic production, a policy so general that few groups argued against it.<sup>9</sup>

After termination of the Petroleum Administration for War, the Oil and Gas Division of the Department of Interior was given the function of coordinating Federal policy on petroleum. One office of the Oil and Gas Division was concerned with administration of the "Connally Hot Oil Act" which provided for prosecution of those who produced oil or gas in violation of regulations and orders of state regulatory agencies.<sup>10</sup> However, the independents were not happy with the Department of Interior and an article of one of their spokesmen in 1950 criticized Secretary Ickes for having proposed the spending of public money

<sup>9</sup>Harold L. Ickes, "Hail and Farewell," Proceedings, Twenty-Fifth Annual Meeting, American Petroleum Institute, v. 25, sect. I (1945), 37-38.

<sup>10</sup>Department of Interior, Annual Report of the Secretary of the Interior, Fiscal Year Ended June 30, 1946, pp. 231-232.

for a pipeline in Arabia and Secretary Krug for his "we're running out of oil" statements. Criticism even extended to the Department's seal: "Nothing can be said for the buffalo as an artistic representation. The front of him is covered with what may be either hair or Spanish moss and the rest of him is nude; it may be that the uncovered portion was meant to suggest the need for Federal protection."<sup>11</sup> The Spanish moss must have symbolized Venezuelan oil!

In 1949, at the request of Secretary of Interior J. A. Krug, a report titled "A National Oil Policy for the United States" was prepared by a committee of the National Petroleum Council. The report concluded that "Vigorous oil development under competitive conditions at home and abroad is the best way to assure our national security."<sup>12</sup> In view of the very noncompetitive conditions that existed at home under the state regulatory bodies and abroad under the cooperative domination of a few companies, the report seems naïve.

In 1951 the Oil and Gas Division of the Department of Interior made a study of the oil import policy and concluded that no action by the Federal government should be taken currently to restrict imports of petroleum.<sup>13</sup> Because of the serious dislocations in the supply of petroleum caused by the Anglo-

<sup>11</sup>Lawrence E. Smith, "Nothing Quiet Along the Potomac!" The Independent Petroleum Association of America Monthly, XX, No. 9 (January, 1950), 17.

<sup>12</sup>A National Oil Policy for the United States, A Report of the National Petroleum Council (Washington, 1949), p. 23.

<sup>13</sup>Department of Interior, Annual Report of the Secretary of the Interior, Fiscal Year Ended June 30, 1951, p. 237.

Iranian oil crisis, a voluntary agreement dated June 25, 1951, was sponsored by the Petroleum Administration for Defense of the Interior Department which allowed American companies temporarily to take cooperative action to compensate for the loss of Iranian petroleum with immunity from antitrust prosecution.<sup>14</sup> The legal basis for the agreement was questionable.

The National Military Establishment was in harmony with the prevalent view in the Truman Administration that favored the importation of oil, as long as such importations were not so excessive as to depress United States exploration and development of petroleum resources. Secretary of Defense James Forrestal testified that in World War II during fighting near Japan and Okinawa, Middle East oil was of the highest importance because it foreshortened delivery in terms of both ships and time. He indicated that if Middle Eastern oil replaced oil from the Western Hemisphere going to European areas, the United States would benefit in reference to its national security since demands on the oil resources of the Western Hemisphere would be lessened.<sup>15</sup>

The Navy was heavily dependent upon foreign oil supplies during the Korean conflict and did not purchase residual

<sup>14</sup>Ibid., p. 440.

<sup>15</sup>House, Special Subcommittee on Petroleum of the Committee on Armed Services, Hearings, Petroleum for National Defense, 80th Cong., 2nd Sess., 1948, pp. 9, 10, 13.



fuel oil from our East and Gulf coast refineries until the Iranian shutdown in 1951.<sup>16</sup>

In June of 1952 a report to the President by the President's Materials Policy Commission was released. The report emphasized the growing importance of Middle Eastern oil, indicating that 199,000 wells drilled in the United States from 1946 to 1951 brought in new proved reserves of 23.5 billion barrels while in the same period about 400 new wells completed in the Middle East brought in new proved reserves of 27.6 billion barrels. Production in 1951 averaged 12 barrels a day per well in the United States, 238 barrels a day per well in Venezuela, and about 5,000 a day per well in the Middle East. The report fully explored the possibility of loss of the Middle East as an oil source in event of war but the report was naïve in proposing that the domestic oil industry conserve its resources by lowering production for the sake of national security. However, imports were seen as beneficial to the extent that domestic oil could not economically keep pace with demand.<sup>17</sup> The report devoted seven pages to a description of the marvelous economic and social developments in Venezuela in such fields as agriculture, highways, housing and public health, that had

<sup>16</sup>Bruce K. Brown, Deputy Administrator, Petroleum Administration for Defense, "Petroleum Development in the Western Hemisphere," The Independent Petroleum Association of America Monthly, XXIII, No. 1 (May, 1952), 28.

<sup>17</sup>The President's Materials Policy Commission, Resources for Freedom, A Report to the President of the United States, III, June, 1952, 7, 11.

resulted from development of its oil resources.<sup>18</sup>

President Truman believed that the oil import issue was a part of the struggle for reciprocal trade. On February 7, 1950, he wrote Ernest O. Thompson, Chairman of the Texas Railroad Commission, that "we send Five Hundred Million Dollars worth of merchandise a year to Venezuela - that consists of everything from millions of pounds of frozen chicken to wheat, eggs and everything else you can think of."<sup>19</sup> On June 29, 1950, Wright Patman of Texas sent the President a report protesting oil imports, prepared by Patman's House Small Business Committee. Mr. Truman thanked him for his letter and report on the effects of oil imports and replied: "About the only effect I have been able to find, by an independent survey that I had made, is that production, sales and oil prices have all increased to the point where they are higher than they have ever been. I also find that our exploration activity is the highest in history, and that production in Texas has recently shown increased allowables averaging better than 100,000 barrels a day each month since April. Something must be radically wrong with the reasoning of the people who would like to

<sup>18</sup>Ibid., V, June, 1952, 99-105. Compilers of the report must have been unaware of political conditions in Venezuela. The country at that time was ruled by one of the bloodiest military juntas, controlled by Marcos Perez Jimenez. Opponents of the regime were jailed or shot down in the streets. See Robert J. Alexander, The Venezuelan Democratic Revolution (New Brunswick, N. J., 1964).

<sup>19</sup>Folder OF 61 "O", Official File, Truman Papers.



cut off our foreign trade for the benefit of the oil crowd."<sup>20</sup>

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<sup>20</sup>Letter from Harry S. Truman to Wright Patman, July 6, 1950, folder OF 61 "O", Official File, Truman Papers. The copy was a blue carbon indicating a letter personally dictated by Mr. Truman, according to Philip Lagerquist, Research Archivist at the Truman Library. For the course of our trade with Venezuela following oil import restrictions, see Chart No. 2 in the Appendix.

## PART II THE EISENHOWER ADMINISTRATION

## CHAPTER 4

## OIL IMPORTS AS A THREAT TO THE NATIONAL SECURITY

Under the threat of total global war during the Eisenhower Administration, the question of oil import restrictions became closely tied to national security considerations. Although the effect of any trade agreement upon our national defense interests had been previously a fundamental consideration of State Department negotiators, the Reciprocal Trade Agreements Extension Act of 1954 gave legislative formalization to that principle. Section 2 provided that no trade agreement could decrease the duty on any article "if the President finds that such reduction would threaten domestic production needed for projected national defense requirements."<sup>1</sup> That amendment to the act was proposed by Senator Stuart Symington, a Democrat from Missouri, a state with comparatively unimportant oil production. The amendment passed by a voice vote.<sup>2</sup>

One month after passage of the 1954 trade act, the President established the Cabinet Committee on Energy Supplies and Resources to "undertake a study to evaluate all factors pertaining to the continued development of energy supplies and resources and fuels in the United States, with the aim of strengthening the national defense, providing orderly industrial

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<sup>1</sup>Memorandum from Roger W. Jones, Assistant Director for Legislative Reference, to the President, June 30, 1954, Reports to the President on Pending Legislation (Bill File), Papers of Dwight D. Eisenhower, Dwight D. Eisenhower Library, Abilene, Kansas. Cited hereafter as Eisenhower Papers.

<sup>2</sup>Congressional Quarterly Almanac, X (Washington, D. C., 1954), 270.

growth, and assuring supplies for our expanding national economy and for any future emergency." Coal, petroleum and natural gas were listed as the major sources of energy in the President's announcement of the formation of the committee. The Director of the Office of Defense Mobilization, Arthur S. Flemming, was made chairman.<sup>3</sup>

On February 26, 1955, the White House released a report of the Committee in which, for the first time, the Executive Branch stated that there was a direct relationship between the quantities of oil imported into this country and our national defense. The Committee found that if the imports of crude oil should exceed the proportion that those imports bore to the production of domestic crude oil in 1954, the domestic fuel situation could be so impaired as to endanger the orderly industrial growth which assures the military and civilian supplies and reserves that are necessary to the national defense. Additionally, the report indicated, there would be an inadequate incentive for exploration and the discovery of new domestic sources of supply.<sup>4</sup> Excessive imports would cut off much of the market for domestic production, thus slowing the growth of domestic crude oil production and impairing the availability

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<sup>3</sup>White House Press Release, July 30, 1954, folder OF 134-H, Official File, Eisenhower Papers. Other members of the committee were the heads of the Departments of State, Defense, Justice, Interior, Commerce and Labor.

<sup>4</sup>Report of the Presidential Advisory Committee on Energy Supplies and Resources Policy, February 26, 1955, folder OF 134-H, Official File, Eisenhower Papers, pp. 3, 4.

of a secure supply of oil in time of war.

Voluntary restrictions on the importation of crude oil were thus initiated, based upon the argument of national security. In October, 1955, the Energy Committee suggested to importers that their planned imports of crude oil be reduced by 7 percent. Emphasis was placed upon reduction of the flow of oil from the Middle East rather than from Canada or Venezuela, the latter offering a surer supply in time of war.<sup>5</sup>

Officials representing the economic interests of the domestic producers took heart in the operations of the Energy Committee and Governor Robert F. Kennon of Louisiana wrote to Wilton B. Persons, Deputy Assistant to the President, that the Louisiana Conservation Commissioner took encouragement even from the notice that the Energy Committee was meeting.<sup>6</sup> Voluntary restrictions effected by letters from the Office of Defense Mobilization to importing companies worked reasonably well until the middle of 1956, as will be dealt with later.<sup>7</sup>

Release of the Energy Committee report on February 27, 1955, had followed the President's message to Congress concerning foreign trade, on January 10, 1955. The message called for

<sup>5</sup>Remarks of Arthur S. Flemming, Director, Office of Defense Mobilization, October 29, 1956, folder OF 72-H, Official File, Eisenhower Papers, pp. 2, 3.

<sup>6</sup>Letter, June 27, 1955, folder OF 149-B-2 Oil and Petroleum, Official File, Eisenhower Papers.

<sup>7</sup>President's Special Committee to Investigate Crude Oil Imports, Petroleum Imports, The Report of the President's Special Committee to Investigate Crude Oil Imports (Washington, D. C., 1957), p. 2.

a three-year extension of the Reciprocal Trade Agreements Act, additional authority to negotiate reciprocal trade agreements that would lower tariffs, and retention of the "escape clause" and "peril point" provisions that enabled the President to raise tariffs when domestic industries suffered severely from foreign imports.<sup>8</sup>

The House Ways and Means Committee conducted hearings from January 17 to February 7, 1955, on the trade act, H. R. 1. During the testimony, oil imports were protested by spokesmen for the coal industry and railroads that hauled coal. Imports of residual fuel oil especially were attacked on grounds that they were a threat to the national security. Representative Daniel J. Flood of Pennsylvania, a coal producing state, stated before the committee that "Any number of witnesses can testify to standing on the shorelines of our Eastern Central and Southern Atlantic Seaboard States and watching tankers in flames off our coast, sunk by German submarines. That should be the end of the claim of these importers of fuel oil, that this source is essential in time of war."<sup>9</sup> Secretary of State John Foster Dulles endorsed a three year extension of the act, indicating it would have a stabilizing effect and increase confidence throughout the free world. Reciprocal trade, rather than trade restrictions, was thus seen as supporting the

<sup>8</sup>Congressional Quarterly Almanac, XI (Washington, D. C., 1955), 289.

<sup>9</sup>House, Committee on Ways and Means, Hearings, Trade Agreements Extension, pt. 1, 84th Cong., 1st Sess., 1955, p. 1309.

national security.<sup>10</sup>

In the Senate Price Daniel of Texas, the leading oil producing state, argued for a mandatory limitation of foreign oil imports to 10 percent of domestic demand.<sup>11</sup> The Administration had already accepted the principle of voluntary limitations, but was opposed to compulsory limitations, at this time. On April 18, the State Department strongly opposed a move by Senator Matthew M. Neely, Democrat of West Virginia, a coal producing state, to amend H. R. 1 to restrict petroleum imports by law to 10 percent of domestic demand. The State Department published a memorandum opposing the quota proposals. In listing ten reasons why the Neely Amendment should be defeated, the State Department said that there was little or no evidence that either the crude oil industry or the coal industry have suffered from oil imports as to justify departure from principles of free enterprise and competition. Low fuel costs, according to the State Department argument, were important to industrial prosperity.<sup>12</sup>

In the Senate Finance Committee a compromise was reached between the Administration's opposition to any language related to oil import restrictions, and Neely's amendment that would establish a legal and mandatory restriction on oil imports. The compromise, called the Milliken-Byrd Amendment, set up specific

<sup>10</sup>Ibid., pp. 75-77.

<sup>11</sup>Congressional Quarterly Almanac, XI, 291-296.

<sup>12</sup>New York Times, April 19, 1955, p. 43.



decision-making machinery in case imports of oil or other articles should threaten the national security. Under the compromise, the Director of the Office of Defense Mobilization would notify the President if the Director had reason to believe that any article was being imported in such quantities as to threaten the national security. If after investigation the President found the existence of such facts he would take necessary action to adjust the imports of such articles. The acceptance of this provision made it possible for the Senate Finance Committee to avoid a vote on the Neely Amendment. The committee was so sharply split on the quota idea that a single vote could have swung the issue one way or the other. Neither side apparently felt strong enough to demand a showdown. On the first vote the compromise was approved 12 to 3 with only Senators Robert S. Kerr of Oklahoma, Alben W. Barkley of Kentucky, and George W. Malone of Nevada, representing states with important oil or mining interests, against it. On the final round only Malone opposed the compromise.<sup>13</sup> The President gave the amended bill a boost. In his news conference of April 27, the day before the bill with the amendment was reported to the Senate, the President indicated that he thought the Milliken-Byrd Amendment a very fine one.<sup>14</sup> The President's support of the compromise amendment was confirmed in a letter of Gerald D. Morgan, Special Counsel to the

<sup>13</sup>Bertram F. Linz, "Imports Showdown Due This Week," The Oil and Gas Journal, LIII, No. 52 (May 2, 1955), 63.

<sup>14</sup>Public Papers of the Presidents of the United States, 1955 (Washington, D. C., 1960), p. 430.

President, to Senator Harry Byrd on May 16, 1955.<sup>15</sup> On the floor of the Senate, Senator Neely was to recall later, Administration spokesmen gave assurance that if the oil companies did not reduce their imports, the Administration would take vigorous action under the trade act to reduce imports. Senator Neely later said that without those assurances his amendment to set up compulsory restrictions on oil imports would have passed.<sup>16</sup>

Under protectionist pressure the question of oil import restrictions was thus left to Presidential decision and was to be based upon national security considerations, a basis that had already been affirmed by the report of the Cabinet Committee on Energy Supplies and Resources released in February, 1955. Since then the Director of ODM had been exhorting, on a voluntary basis, importing companies to hold their crude oil imports to the 1954 level, in the interest of national security.

Although the national security argument for limitation of imports could be maintained quite logically, it was also true that economic sectionalism and industry self-interest were allied with, and were often masked by, the national

<sup>15</sup>Folder OF 149-B-2 May 1955, Official File, Eisenhower Papers.

<sup>16</sup>Senate, Subcommittee of the Committee on the Judiciary and Committee on Interior and Insular Affairs, Hearings, Emergency Oil Life Program and Related Oil Problems, 85th Cong., 1st Sess., 1957, pp. 23, 24.

security argument. A few of the more unusual cases of groups seeking tariff protection in the interest of national security are listed below:

- a. The Cannery Workers and Fishermen's Union sought protection for Tuna on the ground that the Tuna Fleet served the Navy in World War II and was useful in reporting unusual movements.
- b. The Diamond Match Company sought protection for matches since the industry maintained personnel skilled in handling explosive materials.
- c. The American Manufacturers of Toy Balloons sought protection for toy balloons since during World War II the industry produced target balloons, life rafts and gas mask parts.<sup>17</sup>

Protection for the domestic petroleum industry in the interest of national security was similar in principle to the stockpiling of strategic materials in case of war. Here also it was difficult to separate national interest from selfish economic interests. A staff review of the Bureau of the Budget described the dilemma:

Contracts for strategic and critical materials in the stockpile have sometimes been above the marked price to encourage more production. In some cases, these con-

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<sup>17</sup>Attachment to letter of Carl D. Corse, Chairman, Inter-departmental Committee on Trade Agreements, to Arthur S. Flemming, January 10, 1955, folder OF 149-B-2 Jan. 1955, Official File, Eisenhower Papers.

tracts have resulted in a two-price system which avoided a general price rise. In other cases, they have probably raised the general price level (the additional demand generated by the stockpile . . . although this was not ordinarily the intent). In recent years, however, the stockpiling program has tended to go in the direction of a price support and subsidy operation for certain domestic materials. The purchase decisions sometimes seem to have been made because of conditions in the industry and not because of the minimum needs of the stockpile. The subsidy has thereby been somewhat concealed under such terms as 'long-term objectives' and 'maintenance of essential elements in the mobilization base.'<sup>18</sup>

Restrictions of oil imports may have had a similar effect on oil prices during this early period before oil importing became competitive. Alarmed over the effect of voluntary restrictions upon the price of oil and coal, Dennis J. Roberts, Governor of Rhode Island and Chairman of the New England Governors Conference, expressed in a letter to the President the concern of New England Governors meeting in Boston. "Since February," Roberts wrote, "when your Advisory Council on Resources Policy

<sup>18</sup> Attachment ("A Staff Review of Concealed Subsidies in the Federal Budget") to letter from William F. Finan, Assistant Director for Management and Organization, Bureau of the Budget, to Meyer Kestnbaum, Special Assistant to the President, December 3, 1956, folder 144 Lending Agencies - Interest Rates, Statutory, Records of Meyer Kestnbaum as Special Assistant to the President, Eisenhower Papers.

recommended restricting importation of oil into the United States, the price of both residual fuel oil and the allied price of coal have risen. The industrial utility and commercial building costs of New England have therefore been raised an estimated \$33,500,000. a year . . . The New England Governor's Conference is on record as opposed to any action which would tend to limit the supply of fuel for New England . . . Ten million people in New England are intimately affected by any restraints on access to competitive fuels."<sup>19</sup>

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<sup>19</sup>Letter, September 26, 1955, folder OF 149-B-2 Oil and Petroleum, Official File, Eisenhower Papers.

## CHAPTER 5

COMPETITION VS. CARTEL IN OIL IMPORTING

As indicated earlier, five of the largest importers had been charged in April, 1953, of conspiring to control imports of petroleum and of excluding other companies from the opportunity to import oil into the United States. The issue of oil import restrictions thus became two headed: restrictions by the Federal government under the ambiguous principle of national security, and conspiratorial restrictions by the major importers in order to monopolize trade and maintain or raise prices. While the Justice Department was attempting to prosecute the major importers for cooperating in a noncompetitive fashion to restrict imports, the Office of Defense Mobilization was attempting to get the importers to reduce their oil imports. Secretary of State John Foster Dulles accurately described the dilemma before the House Committee on Ways and Means, "In practice quotas are extremely difficult to administer, and they impose upon those who are subjected to quotas almost a cartel system, and an allocation of the market."<sup>1</sup>

In 1957 oil imports increased and the "national security amendment" to the trade act was invoked. The President established the President's Special Committee to Investigate Crude Oil Imports, and after receiving the committee's report

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<sup>1</sup>Hearings, Trade Agreements Extension, op. cit. (above, note 9), p. 77.

the President approved a program for assigning specific voluntary quotas to each importing company based upon their average crude oil imports for 1954, 1955 and 1956, except that newcomer importers could import according to quotas based upon their July, 1957, schedules.<sup>2</sup> The placing of quotas on a historical basis was an advantage to the large importers who undoubtedly wished to avoid or slow down the entrance of interlopers into the international oil trade. Willingness of the majors to comply with quotas based upon historical positions was reflected in an article in the Oil and Gas Journal under the heading: "Importers Reaction to the Imports Plan." In reference to the 1957 voluntary quotas, all five of the major importers involved in the Cartel Suit indicated that they would comply. Most of the smaller companies grumbled about the small size of their quotas, or indicated they planned to import in excess of their quotas. Sun Oil, ironically, indicated they would not comply because of the antitrust laws!<sup>3</sup> By November of 1957 three newcomer importers were not complying with restrictions: Eastern States Petroleum Company, Sun Oil Company and Tidewater Oil Company.<sup>4</sup>

Easy compliance with voluntary restrictions by the majors that dominated the foreign oil markets was indicated even before

<sup>2</sup>Petroleum Imports, The Report of the President's Special Committee to Investigate Crude Oil Imports, op. cit. (above, note 7), pp. 2-4; 11, 12.

<sup>3</sup>LV, No. 32 (August 12, 1957), 72.

<sup>4</sup>Oil and Gas Journal, LV, No. 46 (November 18, 1957), 137.



the Federal government sought voluntary restrictions. Efforts in 1954 by the Texas Railroad Commission to get the large importers to reduce imports met with notable success. Texas Company, Standard Oil of New Jersey, Gulf, Socony-Vacuum, Standard Oil of California and Standard Oil of Indiana announced substantial cuts in imports.<sup>5</sup> Arthur S. Flemming, Director of the Office of Defense Mobilization, innocently expressed how easily Standard Oil of New Jersey complied with voluntary restrictions: "my recollection is distinctly that Standard of New Jersey has cooperated with us completely on the oil import problem."<sup>6</sup>

That voluntary oil import restrictions on a historical basis were much less than an imposition upon the integrated majors was indicated in reports that the majors were forcing independents to comply with the government's import restrictions program. In a letter written (but marked "not sent") by William P. Rogers, the matter was illustrated: "Instances have been brought to our attention where major companies have told independents that the major company's desire to qualify for delivery of complying products on Government contracts coupled with its inability to segregate crude runs in refining, would make it absolutely necessary that any imported crude accepted by the major for refining on contract be 'complying crude.'

<sup>5</sup>Oil and Gas Journal, LIII, No. 5 (June 7, 1954), 75; LIII, No. 7 (June 21, 1954), 116.

<sup>6</sup>Hearings, Emergency Oil Lift Program and Related Oil Problems, op. cit. (above, note 16), p. 25.

This and other similar business relationships thus may make compliance of smaller refiners dependent on sanctions imposed by integrated majors."<sup>7</sup>

The Government's voluntary imports restriction program was in effect doing just what the Justice Department was trying to prevent. There was no immediate way out apparent to the President since his restriction program was necessary in order to prevent a more serious breakdown in the reciprocal trade program by action of Congressional protectionists. However, the problem was accurately described in a report of the Senate Committee on the Judiciary:

The recommendation of the President's Cabinet Committee to restrict oil imports through voluntary agreement raises serious questions concerning the legality of such an agreement under the antitrust laws. It has definite anticompetitive implications and tends to preserve the market position of the international oil companies. A flat percentage cutback imposed on the major importers, predicated upon a historical base period, perpetuates the market shares which the Department of Justice charged in its cartel suit against these importers were arrived at by illegal agreements for

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<sup>7</sup>Draft letter from William P. Rogers, Attorney General, to Frederick H. Mueller, Under Secretary of Commerce, ca. November 18, 1957 (undated), folder Antitrust Division, Papers of William P. Rogers, Dwight D. Eisenhower Library, Abilene, Kansas.

dividing up world markets.<sup>8</sup>

One error on the part of the President may have been his failure to appoint the Attorney General as a member of the President's Special Committee to Investigate Crude Oil Imports. Attorney General Brownell expressed an interest in the issue of voluntary quotas in a letter to the Bureau of the Budget, indicating that Justice was concerned with the general anticompetitive aspects of foreign oil production and had a special interest in the preservation of free enterprise, both in production and importation. Specifically, they were interested that any plan for the limitation of oil imports include equal opportunities for new as well as established importers.<sup>9</sup>

Newcomers had been making important discoveries in Canada, Venezuela, Somalia, Iran and other areas. By 1958 some 200 United States oil concerns were active abroad.<sup>10</sup> In 1954 there were 16 oil companies, all American, importing oil into the United States, exclusive of the West Coast. Of the 605,000 barrels a day so imported, the five companies involved in the Cartel Suit imported 408,600 barrels a day, or 68 percent.<sup>11</sup> For the first half of 1960, quotas under the mandatory system, to be described later, were announced in December, 1959, for importing crude oil

<sup>8</sup>Senate, Petroleum, The Antitrust Laws and Government Policies, 85th Cong., 1st Sess., 1957, Rept. 1147, pp. 3, 4.

<sup>9</sup>Letter to Sam R. Broadbent, Chief, Commerce and Finance Division, Bureau of the Budget, May 14, 1957, folder OF 134-F-8, Official File, Eisenhower Papers.

<sup>10</sup>Petroleum Press Service (London, August, 1958), pp. 297-300.

<sup>11</sup>Oil and Gas Journal, LV, No. 31 (August 5, 1957), 44.

into the same area for 124 companies. Of the 718,087 barrels a day total, the five companies involved in the Cartel Suit were assigned quotas of 239,979 barrels a day or 33 percent. The pattern of imports into the West Coast was about the same, on a smaller scale.<sup>12</sup>

In its supplementary report of March 24, 1958, the President's Special Committee to Investigate Crude Oil Imports recognized the importance to the free enterprise system of allowing newcomers into foreign oil production. The accommodation for newcomers was made by cutbacks in allocations for established importers.<sup>13</sup> Further accommodations at the expense of established importers were made throughout the program of governmental restrictions on oil imports during the period of this study.

The end of monopolization of foreign oil importing was further assisted by antitrust suits against the five majors: Standard Oil of New Jersey, Socony-Vacuum, Standard Oil of California, Texas Company and Gulf Oil. None of the suits involving importing ended in convictions but several ended in consent judgments that forced the majors to compete with one another in foreign areas. One suit, however, was an outright failure. The suit by the Department of Justice to recover \$65,701,695 for overcharges to the European Cooperation Adminis-

<sup>12</sup>Oil and Gas Journal, LVII, No. 52 (December 21, 1959), 54-55.  
The new importers were not subsidiaries of the majors.

<sup>13</sup>Supplementary Report, folder OF 149-B-2 Oil and Petroleum, Official File, Eisenhower Papers.

tration was finally dismissed in July, 1957.<sup>14</sup> The Justice Department had claimed that prices were unfair since Middle Eastern oil was being sold to a United States agency in Europe at higher prices than Middle Eastern oil was being sold on the American market, a much greater distance.<sup>15</sup> In his opinion, Judge Thomas F. Murphy indicated that the Government had failed to prove that ECA was not charged the "lowest competitive market prices" during the period involved, September 1, 1950, to August 31, 1952. The companies involved were the Caltex group, owned jointly by the Texas Company and Standard Oil of California.<sup>16</sup> Caltex, through its parent owners, was very much involved in another antitrust suit, the complaint filed April 21, 1953, referred to as the Oil Cartel Suit. That portion of the case involving the Texas Company was finally settled by consent judgment on June 20, 1963. The consent judgment forbade the Texas Company from entering into any agreements with competitors to fix prices, allocate production or restrict United States oil imports or exports. The judgment left the Government free to challenge Caltex operations in the future.<sup>17</sup> A Justice Department press release on January 24, 1968, indicated "After the judgment was filed against Texaco, most of the European facilities of

<sup>14</sup>New York Times, July 18, 1957, p. 4.

<sup>15</sup>Second Amended Complaint, U.S. v. Standard Oil Company of California, The Texas Company, Bahrein Petroleum Company, Ltd., California-Texas Oil Company, Ltd., Caltex Oceanic, Ltd., and Mid-East Crude Sales Company, Civil Action No. 78-152, dated February 7, 1956, U. S. Dist. Court, Southern Dist. of New York.

<sup>16</sup>New York Times, July 18, 1957, p. 4.

<sup>17</sup>Department of Justice, Press Release, June 20, 1963.

Caltex were divided between its joint owners, Texaco Texaco Company and Standard Oil Company of California."

A consent judgment in the Cartel Suit had been signed in November, 1960, against Standard Oil of New Jersey and Socony Mobil Oil Company, formerly Socony Vacuum. This judgment provided for the division of the assets of Standard Vacuum Oil Company between its joint owners, Standard of New Jersey and Socony Mobil. Standard Vacuum was primarily a marketing company in the Far East, with sales of over a billion dollars and crude oil production of 84,000 barrels a day, in 1959. The 1960 judgments included agreements by the defendants not to enter into agreements with other companies to limit importation of crude oil. A judgment against Gulf Oil, which had no comparable joint marketing set-up, provided for a set-aside of 100,000 barrels per day of that company's large crude oil production in Kuwait for a period of ten years, for the benefit of independent oil companies. Assistant Attorney General Robert A. Bicks indicated that the judgments would "go far to open up foreign petroleum markets to smaller oil companies as well as affording them greater opportunities to obtain foreign crude oil."<sup>18</sup> The judgments were not harsh. Conviction could have resulted in divestiture of major foreign assets rather than splitting up, and joint production operations, excluding joint marketing operations, were pretty much left in tact.

In reference to violations of the Sherman Antitrust Act,

<sup>18</sup>Department of Justice, Press Release, November 14, 1960.



the Government's policies towards the majors involved in importing oil were far from consistent. Upon issuance of the consent judgment a spokesman for Standard of New Jersey indicated with justification that the decree was "a welcome clarification of the antitrust laws" in relation to Jersey's foreign operations.<sup>19</sup> Everyone probably understood that if the companies conspired with one another, by such means as through phone calls, conferences or correspondence, to limit imports of oil, and so control the market, then a violation of antitrust laws would occur. In most countries other than the United States monopolies were quite legal, in one form or another. This was true in Europe as well as the Middle East. American companies were expected by the American Government to function in those countries according to the laws of those countries and so cartelization of Middle East production occurred. However, in dealing with an American agency in Europe funded by the taxation of American citizens, the companies were expected to operate competitively and without violating American laws. As indicated in a report of a subcommittee of the Senate Judiciary Committee, "By what method do the Big Five executives switch their thinking from 'cartelize' when dealing with the other four jointly owned foreign companies in Europe to 'compete' when dealing with the same people in the United States?"<sup>20</sup>

<sup>19</sup>New York Times, November 15, 1960, p. 63.

<sup>20</sup>Senate, Subcommittee on Antitrust and Monopoly of the Committee on the Judiciary, Petroleum, the Antitrust Laws and Government Policies, 85th Cong., 1st Sess., 1957, Report, Committee Print, p. 46, Statement of Gareth M. Neville, assistant counsel.



The distinction had to be made in order to preserve our own system of competition and free enterprise, but the Government did not provide sufficient clarification of that distinction until the splitting up of Standard-Vacuum and the Caltex group after 1959. Then it was made clear - that production in foreign lands could be accomplished jointly, under foreign laws, but that joint marketing firms must function competitively,<sup>21</sup> because of their inseparable effect on the United States market. Government assigned importing quotas allowed or encouraged a continuation of the trend towards competition in importing, but the question remains as to whether or not the dominance of the majors was altered much in the Middle East in supplying Europe.

During periods of emergency the Government has granted oil companies immunity from antitrust action, meaning that the majors have had to switch Jeckyll and Hyde roles, i. e. competition vs. cartel, chronologically as well as geographically. One example is the Iranian consortium. During disruption of Iranian oil production because of a rebellion in 1952, several American oil companies were given antitrust immunity so that they could cooperate in diverting oil supplies to shortage areas. Plan of Action No. 1 was cancelled when the Attorney General withdrew his approval. American, French and British oil companies proposed signing an agreement with the Iranian government in 1954 to reestablish oil production with that nation's oil business split up between the companies on a

<sup>21</sup>Department of Justice, Press Release, November 14, 1960.

percentage basis. In January, 1954, at the request of the National Security Council, the Attorney General rendered an opinion that the proposed plan did not constitute a violation of antitrust laws.<sup>22</sup> After closure of the Suez Canal in 1956 with the resulting threat to the oil supply of Europe, the Office of Defense Mobilization invited major American oil companies with foreign operations to form an organization called the Middle East Emergency Committee to act in cooperation with one another under Government supervision to meet the oil supply emergency. This cooperation extended to transportation, refining and production. Of the fifteen original members of MEEC, nine were involved in the 1953 Cartel Suit or were owned by the five involved.<sup>23</sup> Under terms of the Defense Production Act immunity from antitrust action was granted by the Government, with certain conditions.<sup>24</sup> In the interest of national security the majors were, in effect, ordained as chosen instruments of national policy and allowed to operate outside of laws established to insure a free, open and competitive market. It would be assumed that there would be no oil import problem during such a period of shortage in Europe since oil supplies would flow to Europe. However, at the height of the European shortage in the first quarter of 1957, imports into the United States

<sup>22</sup>Petroleum, the Antitrust Laws and Government Policies, op. cit.,  
pp. 15, 16.

<sup>23</sup>Ibid., pp. 51-53. Total assets of the fifteen members were well over \$20 billion.

<sup>24</sup>Hearings, Emergency Oil Lift Program and Related Oil Problems,  
op. cit. (above, note 16), p. 68.

were equal to 93 percent of the amount imported a year earlier.<sup>25</sup> Perhaps the oil companies feared a reduction in their historical base for computing import quotas. It would have been difficult to expect them to act contrary to their own interest. Surplus productive capacity enabled the companies to meet the emergency. Neither Congress nor the Executive Branch were satisfied with the MEEC. The companies were berated for monopolistic activities during hearings of subcommittees of the Senate committee of the Judiciary and Committee on Interior and Insular Affairs.<sup>26</sup> The Justice Department charged 29 oil companies with monopolistic conspiracy to raise oil prices during the 1956-57 emergency. In this suit complete acquittal of the companies in 1960 led to a bitter editorial in the Oil and Gas Journal that raised questions about the conduct and integrity of the Government in the matter. The judge had acquitted the companies after hearing the Government's weak case without waiting to hear the evidence of the companies.<sup>27</sup>

Related to the general question of "market control" was the Interstate Oil Compact and regulation of production by state regulatory bodies. In renewing the Interstate Oil Compact for four years in 1955, an amendment was attached requiring the Attorney General to report to Congress on whether or not the Compact had resulted in stabilizing or fixing of prices of oil

<sup>25</sup>Petroleum, the Antitrust Laws and Government Policies, op. cit., p. 63.

<sup>26</sup>Hearings, Emergency Oil Lift Program and Related Oil Problems, op. cit. (above, note 16).

<sup>27</sup>LVIII, No. 8 (February 22, 1960), 56-57.

or gas, the creation or perpetuation of any monopoly, or the promotion of any regimentation in the production or sale of oil or gas, the prohibition of which was in the compact itself.<sup>28</sup> The amendment was proposed by Senator Paul H. Douglas of Illinois.<sup>29</sup> Attorney General Herbert Brownell interpreted the amendment as requiring a broad investigation and asked Congress for \$750,000. to carry out the investigation. Congress cut the amount to \$25,000.<sup>30</sup> The first report summarized information derived from published sources and was uncritical of the Compact.<sup>31</sup> The second annual report was heavily dependent upon nonconfidential files of Federal agencies and the available information was considered overly detailed and incomplete.<sup>32</sup> The third report was similarly bland in content,<sup>33</sup> and the fourth indicated "lack of adequate investigative tools and the necessity of avoiding prejudice to an active antitrust litigation program have limited this inquiry in some areas to consideration of information available from public sources. In part, we have analyzed that detail anew, and, for the rest, re-examined and reoriented previous inquiries and investiga-

<sup>28</sup>House, Consenting to an Interstate Compact to Conserve Oil and Gas, 84th Cong., 1st Sess., 1955, Rept. 917, p. 2.

<sup>29</sup>Congressional Record, 84th Cong., 1st Sess., 1955, C1, pt. 5, 5843.

<sup>30</sup>Oil and Gas Journal, LIV, No. 71 (September 10, 1956), 88.

<sup>31</sup>Department of Justice, Report of the Attorney General, pursuant to Section 2 of the Joint Resol. of July 28, 1955, Consenting to an Interstate Compact to Conserve Oil and Gas, September 1, 1956, p. 14.

<sup>32</sup>Ibid., Second Report of the Attorney General, September 1, 1957, pp. 10-11.

<sup>33</sup>Ibid., Third Report of the Attorney General, September 1, 1958.

tions."<sup>34</sup>

The question of state regulation of domestic oil production was tied to the question of oil imports. The flow of domestic oil to United States markets was controlled to either prevent a decline in price, as critics of the system would say, or to prevent waste, as advocates of the system would say. Oil imports were not regulated, except by the corporations, until Government intervention.

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<sup>34</sup>Ibid., Fourth Report of the Attorney General, September 1, 1959, p. 2.

## CHAPTER 6

## THE TRANSITION TO COMPULSORY RESTRICTIONS OF OIL IMPORTS

In February, 1958, President Eisenhower said at one meeting in the White House that oil production in Texas was down to nine days a month.<sup>1</sup> Senator Lyndon B. Johnson of Texas wrote the President on March 6, 1958, that "Imports have continued to mount and have been offset by cutting production to a point where in Texas the allowable for March has been set at nine days."<sup>2</sup> Without effective investigation no one seemed to question the system that resulted in such a cutback in production.

Protectionist sentiment for stronger limitations on oil imports was indicated during Congressional debate of extension of the Reciprocal Trade Agreements Act in 1958. During hearings before the House Ways and Means Committee on March 21, Governor Raymond Gary of Oklahoma urged Congress to place mandatory controls on the importation of crude oil and refined products.<sup>3</sup> During questioning before the committee, Secretary of Defense Neil McElroy said that a healthy domestic petroleum industry was of major interest to the Defense Department. He indicated that voluntary restrictions were generally successful.<sup>4</sup>

<sup>1</sup>Sherman Adams, Firsthand Report (New York, 1961), p. 394.

<sup>2</sup>Folder OF 149-B-2 Oil and Petroleum, Official File, Eisenhower Papers.

<sup>3</sup>Congressional Quarterly Almanac, XIV (Washington, D. C., 1958), 169.

<sup>4</sup>House, Committee on Ways and Means, Hearings Renewal of Trade Agreements Act, pt. 1, 85th Cong., 2nd Sess., 1958, p. 82.

Under Secretary of Interior O. Hatfield Chilson was questioned by Congressman Frank Ikard of Texas about noncompliance with voluntary restrictions by Eastern States Petroleum and Chemical, Sun Oil and Tidewater.<sup>5</sup> Senator A. S. Mike Monroney of Oklahoma submitted a statement to the Senate Finance Committee which complained that the majors could produce oil for about 38 cents per barrel delivered to the United States while production costs here ranged from \$2.50 to \$2.75 per barrel.<sup>6</sup> An amendment was proposed in the House to deprive the President, under certain circumstances, of his authority to rule on Tariff Commission findings. The amendment would have allowed Congress to over-ride the President by a simple majority vote in escape clause cases. The President wrote a letter to Chairman Wilbur D. Mills of the House Committee on Ways and Means explaining that such an amendment would be unconstitutional. The President proposed, probably as a compromise, that a two thirds majority vote of both Senate and House be required to overrule the President.<sup>7</sup> The compromise was accepted by Congress along with an expansion of the national security principle to include possible unemployment, decrease in Government revenues and

<sup>5</sup>Ibid., p. 165.

<sup>6</sup>Senate, Committee on Finance, Hearings, Trade Agreements Act Extension, 85th Cong., 2nd Sess., 1958, p. 1413.

<sup>7</sup>Letter to Wilbur D. Mills, Chairman, Committee on Ways and Means, from the President, May 29, 1958, folder OF 149-B-2, Official File, Eisenhower Papers.



"other relevant factors."<sup>8</sup> A further curtailment of Presidential power was created by another change of the national security provision in the approved bill which required the Office of Civil and Defense Mobilization to institute an investigation of imports that threatened the national security simply upon application of an interested party, without awaiting Presidential direction.<sup>9</sup> Setting up OCDM to investigate the matter clearly by-passed the President's Special Committee to Investigate Crude Oil Imports. The Cabinet committee included members likely to oppose restrictions, such as the Secretary of State.

The change from voluntary to compulsory restrictions was precipitated by the question of the legality of voluntary restrictions. Available records do not fully explain the legal problem. However, Lewis L. Strauss, who acting as Secretary of Commerce was also head of the still functioning President's Special Committee to Investigate Crude Oil Imports, wrote a memorandum on January 26, 1959, to White House staff members Wilton Persons and Gerald Morgan that the Attorney General had "advised that a longer extension of the voluntary program was susceptible to attack by third parties on the ground that the

<sup>8</sup>Letter to Maurice H. Stans, Director, Bureau of the Budget, from Lawrence E. Walsh, Deputy Attorney General, August 14, 1958, Reports to the President on Pending Legislation (Bill File), Eisenhower Papers.

<sup>9</sup>Letter to the President from Phillip S. Hughes, Assistant Director for Legislative Reference, August 18, 1958, Reports to the President on Pending Legislation (Bill File), Eisenhower Papers.

Sherman Act had been violated." The committee decided to bring about mandatory restrictions by having the Secretaries of State and Defense write to the Director of the Office of Civil and Defense Mobilization asking for a re-study of the national defense aspect of restrictions. The re-study was to be fully documented so that the Justice Department could successfully defend the mandatory program in court.<sup>10</sup>

The letters were written, the investigation conducted, and Leo A. Hoegh, Director of OCDM, wrote the President on February 27, 1959, that both crude oil and crude oil derivatives and products were being imported in such quantities as to threaten to impair the national security. The figures submitted in his letter were not very convincing. The letter indicated that domestic crude oil production had declined from 7,170,000 barrels a day in 1957 to 6,607,000 in 1958. However, imports also had declined, from 1,023,000 barrels a day in 1957 to 961,000 in 1958.<sup>11</sup> Domestic production had declined 6.4 percent, but imports had declined 6 percent -- very close. It was not an upsurge in imports that led to mandatory controls. Hoegh sent a supplementing memorandum on March 4 which attempted to relate imports to a decline in the growth of exploratory activity. Domestic demand had increased 15.5 percent during the

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<sup>10</sup>Folder OF 149-B-2 Oil and Petroleum, Official File, Eisenhower Papers. The memorandum was written to bring them up to date.

<sup>11</sup>Folder OF 149-B-2 Oil and Petroleum, Official File, Eisenhower Papers.

preceding five years while domestic reserves had increased only 2.8 percent.<sup>12</sup> The Attorney General was concerned about the legal basis of the proposed mandatory quotas and wrote the President that in 1958 reserves discovered by new drilling were larger than the increase in domestic demand.<sup>13</sup> He indicated in another letter that "the systems of allocating the quotas among importers which the proclamation would authorize would be more difficult to defend than some of the alternative formulas which were at least legally possible and which we suggested." The letter went on to indicate that by interchange of ideas with the Justice Department many revisions of the allocation system had been made and that the resulting formula was legally stronger than the original proposals of December, 1958.<sup>14</sup> Undoubtedly Rogers had championed the cause of the newcomer importers and competition.

The President issued Proclamation No. 3279 on March 10, 1959, setting up mandatory quotas on oil imports. Included with crude oil were derivatives such as gasoline and residual fuel oil. In case of non-compliance the Government could now take legal action. In issuing the proclamation the President

<sup>12</sup>Folder OF 149-B-2 Oil and Petroleum, Official File, Eisenhower Papers.

<sup>13</sup>Letter to the President from William P. Rogers, Attorney General, in March, 1959 (undated), folder Oil Imports, Records of Gerald D. Morgan as Deputy Assistant to the President, Eisenhower Papers.

<sup>14</sup>Letter to the President from William P. Rogers, Attorney General, March 10, 1959, Reports to the President on Pending Legislation (Bill File), Eisenhower Papers.

indicated that "to me it is indeed a cause for regret that the actions of some in refusing to comply with the request of the Government require me to make our present voluntary system mandatory."<sup>15</sup> However, restrictions had hit hardest the non-complying companies that were new to importing in comparison with the majors, but who had to surrender portions of their quotas to make room for the extremely new newcomers. Tidewater Oil Company was one example of the plight of such companies. After the construction of a new refinery, Tidewater's nine month average of imports in March, 1958, was 62,000 barrels daily. Its allocation on March 31, 1958, was 34,000 barrels daily.<sup>16</sup> Its voluntary quota was increased to 49,200 barrels daily, only to be cut back under mandatory controls to 23,360 barrels.<sup>17</sup> Board Chairman D. T. Staples of Tidewater wrote that as a result of compliance with its East Coast quota, losses from their East Coast operations, including a related tanker fleet, offset earnings from the company's other extensive operations. Chairman Staples wrote "We are faced with the serious question of whether we can participate deliberately and voluntarily in a program so designed that it will liquidate the Company."<sup>18</sup> Such middle size companies probably had less

<sup>15</sup>White House Press Release, March 10, 1959, folder OF 149-B-2 Oil and Petroleum, Official File, Eisenhower Papers.

<sup>16</sup>Oil and Gas Journal, LVI, No. 18 (May 5, 1958), 74-75.

<sup>17</sup>Oil and Gas Journal, LVII, No. 13 (March 23, 1959), 56.

<sup>18</sup>Letter to M. V. Carson, Administrator, Voluntary Oil Import Program, Department of Interior, October 9, 1958, folder Oil Imports Legislation 1959, Papers of Sidney R. Yates, Harry S. Truman Library, Independence, Mo.

flexibility in their operations than did the majors.<sup>19</sup> As their imports had increased some companies had made large investments in new facilities. Voluntary and then mandatory restrictions made those new facilities unprofitable. Middle Eastern oil production owned by the majors could be sold on the European market. If the majors saw their share of the importing pie grow smaller and smaller under governmental restrictions, they could at least take heart that such real competitive threats as Tidewater were hurt also.

That the majors were not satisfied with an ever smaller share of the importing market was indicated in a letter of R. G. Follis, Chairman of the Board of Standard Oil of California. He wrote to the President that "Our company has fully recognized the need for these controls and supports the principle of oil imports restricting as wholly valid." Follis protested the disproportionate share of the market given to smaller companies and to the fact that smaller refiners, rather than smaller crude oil producers, were benefiting from the program. Follis seems hardly justified since if the independent

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<sup>19</sup>Assets of Tidewater on December 31, 1956, were \$679,563,000. as compared with the smallest of the big five, Standard of California, with assets of \$2,041,373,000. Tidewater was a member of the Middle East Emergency Committee and was controlled by Getty Oil Co., a name hardly associated with the underprivileged. However, Tidewater was not under the constant scrutiny of the Justice Dept. for monopolistic activity, nor was it among the "in-group" (the big five involved in the Cartel Suit) of international oil. Petroleum, the Antitrust Laws and Government Policies, op. cit. (above, note 39), p. 53.

refiners were benefiting, the principle of competition would benefit since it was in refining that a monopolistic situation was most prevalent. A spirit of comradery among the majors was expressed when Follis wrote "The result of this is to further redistribute economic advantage among smaller companies and those which, through previous enterprise, have long-established interests and commitments in foreign oil."<sup>20</sup>

A notice published in the Federal Register on October 7, 1960 (25 F. R. 9645) indicated that the Under Secretary of Interior intended to recommend revision of the system of allocating imports of residual fuel oil. At that time residual fuel oil quotas, unlike crude oil quotas, were given only to persons who had been importers of that product in 1957, a distinct advantage to the majors since it kept out interlopers. Texaco Board Chairman, Augustus C. Long, complained of the proposed changes in a letter to the President on October 25, 1960, "Room for these newcomers would be made by reducing the allocations of established importers whose operations and product requirements have been adjusted to the existing Government-imposed system." Mr. Long preferred that all quotas on residual fuel oil imports be eliminated.<sup>21</sup> However, the change was made and one of the last acts of President Eisenhower was to further amend proclamation 3279. The White House Press Release indicated

<sup>20</sup>Letter of June, 1959 (date illegible), folder OF 149-B-2 Oil and Petroleum, Official File, Eisenhower Papers.

<sup>21</sup>Folder OF 149-B-2 Oil and Petroleum, Official File, Eisenhower Papers.



that "The purpose of this amendment is to permit, effective April 1, 1961, the orderly entrance of new importers, who do not currently qualify as importers, into the residual fuel oil markets of the East Coast."<sup>22</sup> It was unfortunate for the principle of competition and free enterprise that Interior informally advised the Defense Department, concerned over its own import allotment, that under revised regulations to implement the Proclamation, historical importer allocations were not to be reduced to a level below 85% of their historical quota.<sup>23</sup> Such regulations, if ever implemented, easily could have been changed by the new Administration, and the Proclamation was still a good one.

Another amendment to the basic proclamation had been signed on December 24, 1960. Considerable debate erupted over this amendment within the Administration, probably because the President's Special Committee to Investigate Oil Imports was defunct and could no longer serve as a forum for thrashing out differences between cabinet members. The Department of Interior originally proposed changes to give the Secretary of Interior broad authority to make exceptions to the formula set up to limit imports. The Deputy Director of OCDM opposed any changes,

<sup>22</sup>White House Press Release, January 18, 1961, folder OF 134-F-8, Official File, Eisenhower Papers.

<sup>23</sup>Letter to Maurice H. Stans, Director, Bureau of the Budget, from J. Vincent Burke, Jr., General Counsel of the Department of Defense, January 5, 1961, folder OF 134-F-8, Official File, Eisenhower Papers.



indicating that OCDM was authorized to maintain constant surveillance of imports. Acting Secretary of State Douglas Dillon indicated that the changes were not related to national security, there had been no adequate interdepartmental discussion, and that our allies would fear further restrictions. State had no objection to the objective of adjusting imports upward or downward on basis of actual experience.<sup>24</sup> The considerably modified amendment was signed December 24, 1960. It provided for adjustment of maximum import levels to compensate for underestimates or overestimates in Bureau of Mines projections of oil demand by which maximum import levels were established.<sup>25</sup>

Curiously enough, the restriction program began to take on the appearance of the system by which state regulatory bodies adjusted domestic production under the Interstate Oil Compact. Under both systems oil was allowed to flow to the United States market largely according to estimates of demand put out by the Bureau of the Mines. Under both systems that flow was slowed down during periods of low demand and increased during periods of high demand, under one system by the Federal government and under the other by state regulatory bodies.

A spot check of letters signed by Senators and sent to the

<sup>24</sup>Memorandum to David W. Kendall, Special Counsel to the President, from Arthur B. Focke, General Counsel, Bureau of the Budget, December 20, 1960, folder OF 149-B-2 Oil and Petroleum, Official File, Eisenhower Papers.

<sup>25</sup>Letter to Gerald D. Morgan, Deputy Assistant to the President, from Arthur B. Focke, General Counsel, Bureau of the Budget, December 24, 1960, folder OF 149-B-2 Oil and Petroleum, Official File, Eisenhower Papers.

President on the issue of oil imports during the crucial year of 1959 indicated that Senators favoring increased restrictions were predominately from states with important oil or mining interests. Favoring more restrictions were twenty-eight Senators from the states of Alaska, Arkansas, Colorado, Indiana, Kansas, Kentucky, Louisiana, Montana, Nevada, New Mexico, North Dakota, Oklahoma, Pennsylvania, Utah, West Virginia and Wyoming. Governor Price Daniel of Texas also sent a letter favoring increase restrictions. Opposed to stricter restrictions, usually with special opposition to restrictions on fuel oil imports, were fifteen Senators from northeastern states where consumption of oil for industry was important and oil or coal production unimportant. Senators from the following states opposed more restrictions in letters to the President: Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island and Vermont. Governor Wesley Powell of New Hampshire also wrote in opposition to more restrictions. Senators from oil producing states felt that oil imports were a threat to the national security; while Senators from oil consuming states felt they were not a threat.<sup>26</sup>

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<sup>26</sup>Folder OF 149-B-2 Oil and Petroleum, Official File, Eisenhower Papers.

## CONCLUSIONS

Congressional action to establish the legal machinery for restricting imports of oil for reasons of national security was associated largely with considerations of the economic self interest of the oil producing states that the Congressmen represented. It would be difficult to imagine that Congressmen from oil producing states, and from their allied states engaged in mining, were sincerely more interested in this nation's ability to wage war, than were Congressmen from industrialized states that were without important oil production. In the same manner, Congressmen from New England took positions on the issue related to the economic self-interest of their states. It was up to the President to say where the national interest lay and whether or not our national security was threatened by oil imports.

Largely because of the necessity of compromising with protectionist Congressmen in order to get a trade program through Congress, legal machinery was set up in trade extension acts that progressively restricted the President in his ability to make a decision on the matter. The final inroad into Executive authority was embodied in the Reciprocal Trade Agreements Extension Act of 1958. Under that act, any injured party could apply for relief directly to the Office of Civil and Defense Mobilization, and if a possible threat were found the President could be overridden by a two-thirds vote in Congress if he refused to establish restrictions. However, the final

move towards mandatory restrictions came about not by the application of private oil interests, but because of legal difficulties involved in the voluntary program that made the system vulnerable in the courts to attack by anyone wishing to end voluntary controls over imports.

The majors that were long-time importers at first benefited under voluntary restrictions since quotas were based upon amounts imported in the past. This kept interlopers from taking a larger share of oil importing. Newcomers had started to make inroads prior to the establishment of voluntary restrictions in 1954. Correspondence indicates that probably it was under the influence of Attorney Generals Herbert Brownell and William P. Rogers that newcomers were given quotas and the big five oil companies involved in the Cartel Suit forced to take a smaller share of oil importing.

If the Justice Department did well in letting in newcomers, it was slow in adjusting its thinking to the way the oil market was controlled after World War II. Most of its antitrust drive was directed at attempting to prove secret conspiracy of the big five to control the international oil market and maintain high prices. Antitrust harassment may have helped competition quite a bit, but if there were cooperation, and there evidently was, it may have been based upon a spirit of comradery rather than conspiracy. To prove conspiracy one needed minutes or records of secret meetings. If such direct evidence was held by the Justice Department, it was not used to obtain outright

conviction. Perhaps all that took place among oil executives was a nod on the ninth hole -- effective but unallowable in court. The difficulty may have been with the outdated Sherman Act. The point became less important with the arrival of the interlopers, the only real heroes in this study, yet the ones blamed the most. They, with the help of the Justice Department, established competition in oil importing.

The national security angle was often in conflict with the question of monopoly. The National Security Council intervened to stop criminal antitrust prosecution in 1952 under Truman, and in 1954 under Eisenhower got the Attorney General to render an opinion that American and British companies could split up Iran's oil production on a percentage basis. The Executive Branch under both Truman and Eisenhower supported the majors, even to the point of considering them chosen instruments of national policy, especially during periods of crisis. Otherwise, they were forced under Eisenhower to progressively share the importing market with interlopers and to split up jointly owned companies that were in themselves agreements not to compete with one another in certain areas.

Few seemed to believe that our national security lay with the newcomers who were fanning out across the globe in search of oil, thus promising to free us from dependence upon a particular area such as the Middle East or Far East. The arrival of the newcomers into importing during the 1957-60 period coincided with a leveling off in the average price of oil, as will be seen

on Chart No. 1 in the Appendix. Although the majors made important developments in other areas, it would be difficult to imagine them being interested in other areas except for their own security or because of competition, since in the Middle East they were sitting on all the oil they could ever sell.

There were disadvantages in the oil import quota system in that the larger companies constructed refineries and other facilities to process imported oil to meet market demand, only to have their quotas cut, resulting in wasted productive capacity and loss on investment. Also, ironically, inefficient production was probably supported in some foreign areas under the quota system, as it was under prorationing by state regulatory bodies. It could be argued with some merit that import quotas discourage competition by restricting the available supply and so maintain artificially high prices. However, the domestic price of oil levelled off after 1957 and in view of price behaviour before quotas it appears unlikely that lack of quotas would have reduced the price of domestic oil.<sup>1</sup> Under the quota system new oil after 1957 was coming from many areas, not just the Middle East. This was good, for reasons of national security as well as for the sake of competition.

After World War II the Truman Administration gave diplo-

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<sup>1</sup>By 1966 the average price per barrel of crude oil at the well had declined to \$2.88. See American Petroleum Institute, Petroleum Facts and Figures, 1967 edition, p. 40 (published bi-annually in December). Oil import quotas are still in effect at this writing.

matic aid to the major oil companies in their search for foreign oil. The Executive Branch under Truman was uniform in its support of oil importing, a reasonable policy since oil imports were not sufficiently large at that time to injure the domestic industry. Truman believed that the large companies were an asset, but snapped back at the "oil crowd" when Congressmen pressed him to restrict oil imports. It was under Truman that the Justice Department started the Cartel Suit against the big five which included a charge that they had themselves restricted imports to maintain and increase oil prices. Under Eisenhower the Cartel Suit was formally initiated. By means of import quotas and a program of antitrust suits a sort of regulated competition emerged in oil importing, a side effect that further contributed to the national security and overshadowed the economic sectionalism behind controls over oil importing.



Other  
Commodities"The Price of Oil Compared with Price of  
Other Wholesale Industrial Commodities"

Oil

175

AVERAGE U.S. PRICE OF CRUDE OIL AT THE  
WELL PER BARREL, 1935-61:

\$3.50

150

WHOLESALE PRICE INDEX FOR ALL INDUSTRIAL  
COMMODITIES EXCEPT FARM PRODUCTS AND FOODS:

125

100

75

50

25

3.00

2.50

2.00

1.50

1.00

.50

'1935

1940

1945

1950

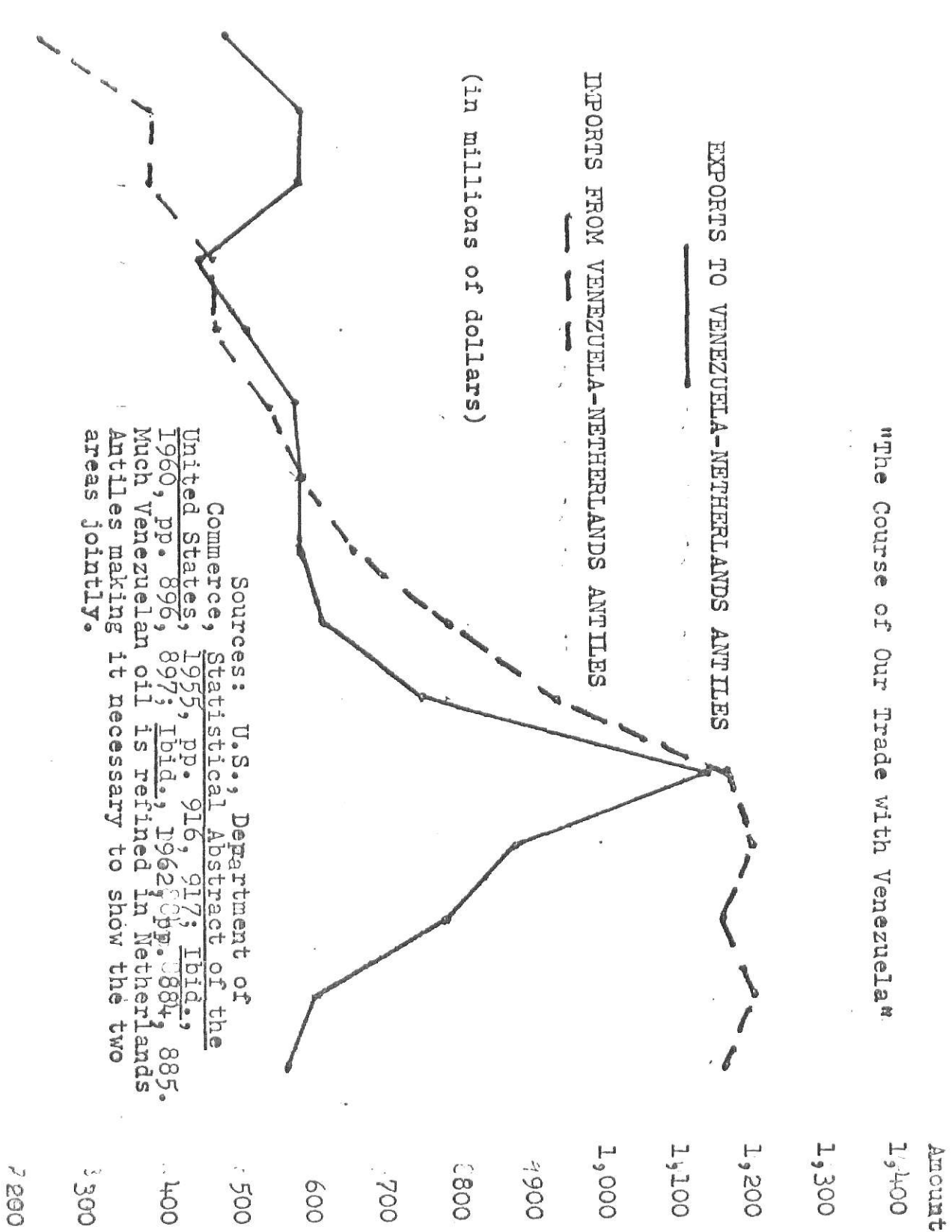
1955

1960

Sources: American Petroleum Institute, Petroleum Facts and Figures, 1959 edition, p. 47 and 1963 edition, p. 40 (for price of oil); U.S. Department of Commerce, Statistical Abstract of the United States, 1968, p. 341 (for wholesale price index of all commodities except farm products and foods). The index of wholesale prices is shown for each year, except 1935-40 which is an average for that five year period.

Chart No. 2

## The Course of Our Trade with Venezuela



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THE OIL IMPORT PROBLEM DURING THE TRUMAN  
AND EISENHOWER ADMINISTRATIONS

by

ROLAND W. DOTY, JR.

B. A., Park College, 1950

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AN ABSTRACT OF A  
MASTER'S THESIS

submitted in partial fulfillment of the

requirements for the degree

MASTER OF ARTS

Department of History

KANSAS STATE UNIVERSITY  
Manhattan, Kansas

1970



The position that members of Congress took on the issue of control over oil imports was related to the economic self-interest of the state that each Congressman represented. Congressmen from oil producing states generally favored restrictions, since foreign oil competed with domestically produced oil. Congressmen from oil consuming states generally wanted unrestricted access to foreign oil supplies. It was up to the President to decide where the national interest lay, and whether or not the national security was threatened by the effect of oil imports upon the domestic oil producing industry.

Largely because of the necessity of compromising with protectionist Congressmen in order to get a trade program through Congress, legal machinery was set up in trade extension acts that progressively restricted the President in his ability to make a decision on the matter. The final inroad into Executive authority was embodied in the Reciprocal Trade Agreements Extension Act of 1958. Under that act, any injured party could apply for relief directly to the Office of Civil and Defense Mobilization, and if a possible threat were found the President could be overridden by a two-thirds vote in Congress if he refused to establish restrictions. However, the final move towards mandatory restrictions came about not by the application of private oil interests, but because of legal difficulties involved in the voluntary program that made the system vulnerable in the courts to attack by anyone wishing to end voluntary controls over imports.

The large international oil companies that were long-time importers at first benefited under voluntary restrictions since quotas were based upon amounts imported in the past. This kept interlopers from taking a larger share of oil importing. Newcomers had started to make inroads prior to the establishment of voluntary restrictions in 1954.

Under the influence of the Justice Department the large international oil companies were forced, during the Eisenhower Administration, to progressively share the importing market with interlopers. This was brought about by the allocation of quotas to new importers at the expense of quotas for established importers.

Few seemed to believe that our national security lay with the newcomers who were fanning out across the globe in search of oil, thus promising to free us from dependence upon a particular area such as the Middle East or Far East. The arrival of the newcomers into importing during the 1957-60 period coincided with a leveling off in the average price of oil.

After World War II the Truman Administration gave diplomatic aid to the major oil companies in their search for foreign oil. The Executive Branch under Truman was uniform in its support of oil importing, a reasonable policy since oil imports were not sufficiently large at that time to injure the domestic industry. Truman believed that the large companies were an asset, but snapped back at the "oil crowd" when Congressmen pressed him to restrict oil imports. It was under Truman that

the Justice Department started the Cartel Suit against the big five international oil companies, which included a charge that they had themselves restricted imports and thus restrained trade in order to maintain and increase oil prices. Under Eisenhower the Cartel Suit was formally initiated. By means of import quotas and a program of antitrust suits a sort of regulated competition emerged in oil importing, a side effect that further contributed to the national security and overshadowed the economic sectionalism behind Federal controls over oil importing.