

PETROLEUM POLICIES  
FOR THE  
UNITED STATES

A Report of

THE NATIONAL PETROLEUM COUNCIL

1966

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FOR THE  
UNITED STATES**

March 1, 1966

A Report by the  
National Petroleum Council's  
Committee on National Oil Policy  
D. A. McGee, Chairman



# NATIONAL PETROLEUM COUNCIL

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March 1, 1966

1625 K Street, N.W.  
Washington, D. C. 20006

My dear Mr. Secretary:

Pursuant to the formal request by the Department of the Interior that the National Petroleum Council restudy "A National Oil Policy for the United States" submitted in 1949, I have the honor to transmit to you here-with a report entitled "Petroleum Policies for the United States" prepared by the National Oil Policy Committee and approved by the National Petroleum Council.

The present report takes into account many developments since 1948. Notable among these are the following: (1) the shift from rapidly increasing demand and a tight supply situation to a much slower rate of growth and ample supply; (2) the greater role of petroleum as a source of energy in the United States; (3) the rapid growth in use of natural gas and gas liquids until these fuels now supply as much energy as crude oil; (4) the competitive pressures on domestic petroleum resulting from the tremendous expansion in reserves and production of foreign oil; and (5) a decision of the Supreme Court in 1954 that the provisions of the Natural Gas Act of 1938 apply to producers selling gas to interstate pipelines.

The developments listed above and other factors have contributed to significant changes deserving consideration. Domestic exploration and drilling for petroleum have declined substantially since 1956. Currently available spare capacity to produce crude oil has increased, but at the same time the ratio of proved domestic reserves of oil and gas to annual production and consumption has declined. Imports have increased steadily to the point that they now supply about twenty per cent of the oil consumed in the United States. Controls on petroleum imports have been imposed on a voluntary basis since 1955, and under a mandatory program since 1959. The price for gas sold by producers to interstate pipelines is now being regulated by the Federal Power Commission.

Developments of the nature summarized above make your request for a review of petroleum policies very timely and appropriate. The Council welcomes the opportunity provided by your request to present its considered judgment on the principles and policies designed to assure for the nation a healthy, expanding domestic petroleum industry capable of continuing to play a major role in meeting increasing requirements for the future. We believe that these policies deserve general support and recommend implementation by industry and by all levels of government.

Respectfully submitted,



Jake L. Hamon, Chairman

Honorable Stewart L. Udall  
Secretary of the Interior  
Washington, D. C.

# PETROLEUM POLICIES FOR THE UNITED STATES

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## I. INTRODUCTION

Long standing national interest in petroleum affairs reflects appreciation of many important factors. Outstanding among these are the strategic role of oil and gas for national security, the need for conservation of resources, and the vital contribution of petroleum in promoting economic progress.

Interest in petroleum policies has been stimulated in recent years by several developments. One of these, the high degree to which the United States relies on petroleum as a source of energy, reflects a long-term trend. Oil and gas now supply about three-fourths of the mineral fuels used in the United States, compared with about one-half in 1947 and about one-quarter in 1926. The impact of this change is evident in every aspect of American life, not only in transportation but also in agriculture, industry, and the home. More recently, the Federal government has become more deeply involved in oil through controls over imports and in gas through regulation of the prices at which producers sell gas to interstate pipelines. Also, as the owner of offshore leases on the Continental Shelf and of the largest acreage of shale lands, the Federal government must make decisions which will affect the development of domestic energy resources.

The preceding developments, as well as other changes which have occurred since the National Petroleum Council last formulated its statement of "A National Oil Policy for the United States," make timely a review of the broad Federal and state policies concerning petroleum that have developed through the years. Such review should serve a useful purpose by providing perspective and guidance as to sound policies for the years ahead until such time as unforeseen major developments require another review. Accordingly, this statement endeavors to summarize the objectives and key elements of sound policies for the United States with respect to crude oil, natural gas, and liquid and gaseous fuels that may be extracted from shales, tar sands, and coal, and with respect to all phases of petroleum operations from exploration through marketing.

## II. BASIC OBJECTIVE AND PRINCIPLES

THE FUNDAMENTAL OBJECTIVE OF PUBLIC POLICIES DEALING SEPARATELY WITH PETROLEUM SHOULD BE TO SERVE THE GENERAL WELFARE BY (1) ASSURING ADEQUATE SUPPLIES OF OIL AND GAS FOR NATIONAL SECURITY, (2) ENCOURAGING AMPLE SUPPLIES AT REASONABLE PRICES FOR ECONOMIC PROGRESS, AND (3) PROMOTING EFFICIENCY IN ALL OPERATIONS.

Two major principles should govern petroleum policies. First, private competitive enterprise should be relied upon and encouraged in all situations in which it can and does function effectively. In this business, as in most others, diversity of investment and effort best serves the public. Second, governmental regulations required for reasons of national security and conservation should interfere as little as possible with normal competitive forces that encourage efficient operations. If government regulations must be imposed, they should provide uniform and equitable treatment.



### III. MAJOR POLICIES

The major elements of policies required to achieve the basic objective are set forth in the following sections.

#### 1. National Security

A HEALTHY AND EXPANDING DOMESTIC PETROLEUM  
INDUSTRY CONTINUES TO BE ESSENTIAL TO THE  
SECURITY OF THE UNITED STATES AND TO THE DEFENSE  
OF THE FREE WORLD.

The essential role of petroleum for industrial and military strength has been demonstrated repeatedly in every national emergency. Nuclear weapons have not reduced the importance of petroleum. Liquid fuels provide the mobility for American military power that serves to deter and limit aggressive actions. In the event of destructive nuclear warfare, petroleum would be essential for rapid recovery by the remaining population. In peacetime, oil and gas promote greater productivity and better living standards. Therefore, petroleum retains the utmost significance.

A domestic industry capable of delivering substantial additional supplies of petroleum and products on short notice is a major asset to the United States and to Allies heavily dependent on oil imports. In the absence of readily available alternate supplies, interruption of the flow of oil in international commerce, whether due to military action or to other circumstances, could have very serious consequences. Supplies from domestic petroleum operations have the advantage of being most dependable and least subject to interruption of delivery for use in the United States.

Domestic resources are not the only basis of national security, however. In an age of global involvement, security is a complex matter including many international considerations relating to trade and to mutual security. Participation by United States nationals in foreign petroleum operations contributes to the security of the Free World. In many circumstances, foreign oil serves the defense needs of the Free World best because of favorable location. The strength and friendship of Allies must also be taken into account.

National policies reflect consideration of both domestic and international factors bearing on security. In addition, purchases of petroleum products by the Federal government both here and abroad should be made in a manner designed to strengthen national security.

2. Imports

NATIONAL SECURITY AND ASSURANCE OF ADEQUATE LONG-RUN SUPPLIES AT REASONABLE COST FOR CONSUMERS REQUIRE LIMITING TOTAL PETROLEUM IMPORTS, INCLUDING PRODUCTS, TO A LEVEL WHICH WILL PROVIDE OPPORTUNITY FOR AND ENCOURAGE EXPANSION OF ALL PHASES OF DOMESTIC PETROLEUM OPERATIONS IN KEEPING WITH INCREASING DEMANDS INsofar AS PRACTICABLE.

Rapid expansion of petroleum imports after World War II and the substantial decline in domestic exploration and drilling since 1956 led the United States to impose mandatory import controls in 1959 in an effort to maintain a healthy domestic industry capable of serving the needs of national security. In regulating imports, government officials must take into account many different factors, often conflicting in nature, in deciding on programs best suited to serve national interests. These programs should apply uniformly and equitably to all parties, and should be designed to interfere as little as possible with normal economic forces and with competitive relationships. Government agencies engaged in importing petroleum should continue to be subject to import controls.

Import policies should be sufficiently definite to provide useful guidance in planning but should be flexible enough to permit reasonably prompt adjustment to significant changes in conditions. Programs implementing such policies should be reviewed at reasonable intervals to determine whether they can be improved to serve the national interest more effectively.

3. Foreign Petroleum Operations

THE UNITED STATES SHOULD SUPPORT EQUAL OPPORTUNITY FOR ITS NATIONALS TO PARTICIPATE IN WORLD PETROLEUM OPERATIONS, AND SHOULD SUPPORT THE RIGHTS OF ITS CITIZENS TO FAIR TREATMENT IN THEIR OPERATIONS ABROAD.

Participation in foreign petroleum operations by nationals of the United States is important not only to the progress and strength of the Free World but also to the security of the United States. Such participation deserves support by national policies which encourage the free flow of capital in world markets and which oppose violation of agreements and any other form of unfair or discriminatory treatment.



The use of petroleum for political purposes to undermine security in the Free World should be opposed. Whenever such danger develops, the United States should consult with the governments and interests affected to determine what action may be useful in countering such threat.

4. Conservation

STATE LAWS TO PREVENT WASTE, TO CONTROL POLLUTION, AND TO PROTECT CORRELATIVE RIGHTS ARE NECESSARY AND DESIRABLE, ARE THE APPROPRIATE WAY TO DEAL WITH DIVERSE LOCAL CONDITIONS, AND SHOULD CONTINUE TO BE REVISED IN KEEPING WITH IMPROVED KNOWLEDGE.

In order to conserve resources and to promote equity, the principal producing states have developed various regulatory controls over drilling and production. These controls have helped to increase recovery of oil and to eliminate substantial unnecessary costs. They have been improved over the years in keeping with better engineering knowledge, particularly in the past few years, to encourage efficient development and better operating practices. Each state should continue to examine and improve its conservation laws and regulations.

Because of widely varying local conditions, conservation regulations are best carried out by the states. The Federal government has supported state action through authorization of an Interstate Compact and through other measures. In keeping with this policy, productive Federal leases should be governed by the same rules in effect for adjoining public and private lands, as is customarily the case now.

Unit operation of pools should continue to be favored as a means of reducing costs and increasing recovery. These operations are increasing both under voluntary agreement and under state laws calling for unitization on a reasonable basis which protects the interests of all parties when the owners of a high percentage of the interests in a field agree on the need for such action. Unit operations should be under state jurisdiction because of widely varying local conditions.

The petroleum industry and state agencies have taken many steps through the years to control water and air pollution. Cooperative efforts and appropriate research designed to achieve clean water and air should be accelerated.



5. Natural Gas Supply

FEDERAL POLICIES SHOULD ENCOURAGE DEVELOPMENT OF NEW GAS SUPPLIES SUFFICIENT TO KEEP PACE WITH GROWING NEEDS, AND SHOULD AVOID CONTROLS AND UNCERTAINTY WHICH INTERFERE WITH THAT GOAL.

A decision of the Supreme Court in 1954 held that the Natural Gas Act of 1938, designed to regulate interstate gas pipelines, required the Federal Power Commission to control prices at which producers sell gas to interstate pipelines. The Commission found that the cost of service standards applied to pipelines are not appropriate for producers. It has tried a number of approaches in an effort to devise satisfactory regulatory standards by administrative action. However, no regulatory definition of standards can take the place of clearly defined legislative standards.

During the prolonged and expensive effort to define regulatory standards by administrative action, the ratio of proved reserves of gas to current production and consumption has declined. Continuation of this decline would be cause for concern about the adequacy of domestic gas supplies for the future. It seems likely that a substantial increase in the rate of development of new gas resources will be required shortly to meet rising demands.

Legislation removing Federal regulatory confusion and uncertainty as to what prices producers can count on receiving from sales of gas to interstate pipelines is an essential step toward encouraging greater development of gas in order to serve consumers adequately in the future.

6. Competition

NATIONAL POLICIES SHOULD ENCOURAGE COMPETITION AMONG ENERGY SOURCES IN THE UNITED STATES AND DIVERSITY OF EFFORT BY MANY INDIVIDUALS AND FIRMS IN ALL FACETS OF PETROLEUM OPERATIONS.

Interfuel competition has been of great benefit to the nation in providing ample supplies of energy at reasonable prices. In a competitive market, price functions effectively as a regulator of supply and demand and as a means of determining the proper economic use of available fuels. Interference with competitively determined prices or with the freedom of customers to use the fuels they prefer imposes undesirable burdens on consumers and producers of energy.

Restrictions on the end use of oil or gas because of concern over long-term availability are not warranted. Many adjustments have occurred and will continue to occur in the use of fuels and in sources of supply in response to normal economic forces. The present substantial flexibility in the use of fuels will become greater in the future. The rising importance of electricity will further intensify competition that is already keen among coal, oil, and gas as a means of generating power. Atomic energy provides still another alternate.

The place of different fuels in the market should not be distorted by government expenditures either on development favoring one form of energy over others or on facilities which will compete with private investments. The pace at which new resources should be developed can be determined best by normal economic considerations under the forces of interfuel competition. Private investments are also being made on tar sands, shales and coal which may open up vast new sources of liquid and gaseous fuels.

Diversity of effort by thousands of individuals and firms in all phases of the business from exploration to marketing has served American consumers well. This diversity contributes to innovation, improvement, and competition. It results from an economic climate providing encouragement for private investment by all operators, from small to large.

The advantages of diversified effort have been particularly apparent in the search for new petroleum supplies. The chances of locating oil and gas improve as more people are encouraged to venture private capital on their own initiative.

Antitrust laws have a role in maintaining diversity of effort. Certain phases of the business require many large aggregations of capital, however, so that size should not be the basis for denying any company the right to grow so long as it remains competitive with numerous other firms.

## 7. Taxation

LONG-ESTABLISHED DIFFERENTIAL TAX PROVISIONS, SUCH AS THOSE DEALING WITH DEPLETION AND WITH INTANGIBLE DRILLING COSTS, SERVE THE PUBLIC INTEREST IN ECONOMIC PROGRESS AND SECURITY BY ENCOURAGING DEVELOPMENT OF PETROLEUM SUPPLIES AND SHOULD BE CONTINUED THROUGHOUT THE EXTRACTIVE PETROLEUM INDUSTRIES.

The United States has maintained differential tax provisions for petroleum and for minerals in general since income taxes were first introduced.



These provisions take into account such factors as the unusual risks encountered in exploration, the need for commensurate rewards in case of success, and the problems involved in replacing the reserves and values depleted by production. They have served to attract capital into exploration and to stimulate greater discovery and development of petroleum resources. As a result, ample petroleum supplies at reasonable prices have contributed greatly to economic growth and national security.

Since undiscovered oil and gas are of no benefit whatever, the promotion of new petroleum discoveries should be a key element of national policies. Continuing encouragement of private exploration efforts at home and abroad is essential in order to supply the increasing quantities of petroleum needed for better standards of living and for security. Therefore, the long-established differential tax provisions which have become part of the economic structure of the industry, to the great benefit of consumers and the nation, should be continued in effect for all petroleum sources.

#### 8. Development of Public Lands

FEDERAL AND STATE PUBLIC LANDS, INCLUDING SHALE LANDS, SHOULD BE MADE AVAILABLE IN AN ORDERLY MANNER FOR PRIVATE DEVELOPMENT UNDER THE MULTIPLE USE CONCEPT IN ORDER TO ENCOURAGE TESTING AND DEVELOPMENT OF NEW ENERGY RESOURCES.

In recent years public lands, particularly on the Continental Shelf, have become an increasingly important source of petroleum. Unleased public lands appear to have considerable potential for future development of oil and gas. In addition, the Federal government is by far the dominant owner of shale lands that may become economic sources for liquid fuels. As sufficient interest develops in leasing public lands, the Federal government and the states should make them available for private exploration and development in order not to retard the commercial utilization of valuable resources. These lands should be made available in such manner that their development will permit introduction of new supplies into the market in an orderly way.

9. Government Research

FEDERAL EXPENDITURES ON ENERGY RESEARCH SHOULD BE RESTRICTED SO THAT THEY DO NOT DISCOURAGE OR ENCROACH ON PRIVATE RESEARCH OR INTERFERE WITH MARKET COMPETITION BETWEEN THE VARIOUS FORMS OF ENERGY.

Private expenditures on energy research and technology are extensive and serve the needs of an expanding economy under the effective guidance of the profit motive and the protection of the patent system. Therefore, government research expenditures should be limited to fundamental studies, such as those designed to advance the frontiers of knowledge and to surveys of potential resources.

10. Industry-Government Cooperation

INDUSTRY AND GOVERNMENT SHOULD CONTINUE PROGRAMS FOR CONSULTATION AND COOPERATION IN THE ANALYSIS OF PETROLEUM MATTERS OF PUBLIC CONCERN.

The petroleum industry has cooperated with state conservation agencies, with Federal officials, with Congressional committees, and with others on many studies. Constructive cooperation of this kind is useful and should be continued through established channels of communication between government and industry.

The needs of the Federal government for petroleum statistics should be discussed with industry to determine the extent to which meaningful information can be provided for useful purposes and how the requirements can be met without undue expense to the government and to industry. The wealth of information which is already provided by industry and by state and Federal agencies should be fully considered.

Information on reserves should be developed as needed, taking proper care to distinguish between fact and speculation.



#### IV. CONCLUSION

The preceding policies, properly implemented and observed by industry and government, will provide the basic foundation on which private enterprise can build the innumerable activities required to assure adequate supplies of petroleum and of all forms of energy for the future.

UNITED STATES  
DEPARTMENT OF THE INTERIOR  
OFFICE OF THE SECRETARY  
WASHINGTON, D.C. 20240

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January 12, 1965

Dear Mr. Hamon:

In January 1949, the National Petroleum Council submitted to the Secretary of the Interior a report entitled "A National Oil Policy for the United States." This report was based upon a comprehensive study of the many elements and broad principles that underlie such a policy and that must be appropriately interpreted by national and state governments as well as by leaders of the industry in order to attain optimum results.

It is obvious to all of us that fundamental changes have occurred since 1949 affecting to a critical degree broad strategic, economic and political aspects of the industry and the interest of government in it, both domestic and foreign.

We can agree, I feel sure, that changes have tended to magnify the importance of the industry on all fronts and to promote its progressive involvement more deeply in the affairs of all nations.

This trend of events has required of this Government an increasing concern with and knowledge of your complex industry as it relates to the fundamentals of national security, and wellbeing in a broader economic and political sense.

It is requested, therefore, that the National Petroleum Council review in depth its earlier report and the factors related thereto and report its views based upon its appraisal of conditions as they are today and as they may be anticipated to evolve in the future, making available to this Department its considered judgments.

Sincerely yours,

/S/ JOHN M. KELLY

Assistant Secretary of the  
Interior

Mr. Jake L. Hamon  
Chairman  
National Petroleum Council  
1625 K Street, N.W.  
Washington, D.C. 20006



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