12/13/74

OFFICE OF THE PRESIDENT

WASHINGTON, D.C.

From the President:

To: Don Rumsfeld

Date: Time a.m. p.m.

Cong. Ed Hebert was
into see me on Navy
oil reserves, #1 & #4

What does Rog
Morton say on this?

Jerry

THE WHITE HOUSE

WASHINGTON

December 13, 1974

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: MIKE DUVAL

FROM: JERRY H. JONES

The attached material was returned in the President's outbox with the following notation:

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Please follow-up with the appropriate action and forward your response to the Office of the Staff Secretary.

Thank you.

cc: Don Rumsfeld
Brent Scowcroft
Ken Cole
Frank Zarb

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Morton will discuss during energy meeting of the President 10:30 A Wednesday.

Mike

cc: Don Rumsfeld
Brent Scowcroft
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Frank Zarb

Statement for the President on
Naval Petroleum Reserves
No. 1, Elk Hills, California and No. 4, Alaska

The basic issue is whether or not the Naval Petroleum Reserves, particularly Petroleum Reserves Nos. 1 and 4, should be continued under the control of the Navy Department as provided by statute or turned into commercial enterprises through transfer to the Department of Interior for commercial production with only the possibility of tangential interest in Petroleum Reserve No. 1 in the Department of Defense.

Certain legislative proposals and moves within the Department of Interior focus mainly on the extensive crude oil in Petroleum Reserve No. 4 estimated to be in the range of 18 billion to 33 billion barrels. Therefore, at today's prices we are talking about a possible gross oil value of upwards to 330 billion dollars. Those proposals would undoubtedly result in the leasing of Petroleum Reserve No. 4 under conditions which would deprive the Treasury of billions of dollars, and at the same time create a commercial bonanza with predictable implications of the type generated by Teapot Dome.

On the other hand, the Navy, with currently appropriated funds, is developing Petroleum Reserve No. 4 at a rate exceeding that which could be accomplished by private interests if they were to gain control of the lands now. The Navy is at least one year ahead proceeding at the maximum possible pace in exploration and development under a 10-year plan which has been compressed to a 7-year operation. Technical !

estimates are that under no conditions could anybody deliver oil from Petroleum Reserve No. 4 prior to 1985. To reach that goal we have concurred that the Navy should seek association with private interests to complete the development but at the same time maintain ownership and a portion of the fields as a defense reserve. This plan would allow a good part of the oil from Petroleum Reserve No. 4 to flow into the private sector but with the prospect of a fair and equitable return to the United States government. We see no way that the Department of Interior can best the Navy plan. By that we mean a return to the federal Treasury of approximately 75 percent versus a return variously proposed as between 1 1/4 and 12 1/2 percent under the Interior proposal.

Not if the Navy does it.

It cannot be overemphasized that Navy is conducting an ongoing operation on the North Slope with an experienced staff, onsight exploration and drilling about to begin while Interior, whose track record in this regard has been miserable -- particularly as illustrated by its handling of the outer continental shelf leasing over the past 20 years -- would be required to gain the necessary legislation and enter into attendant commercial leasing agreements.

With regard to Petroleum Reserve No. 1 at Elk Hills, the Navy now has a program underway, adequately funded by Congress, on its own initiative to further develop the fields so that they may respond expeditiously to defense requirements. The investigation and report of the Pike Subcommittee made it abundantly clear that this country cannot be without a petroleum reserve for national defense purposes during extended times of fuel shortages. The Arab fuel embargo infringed on the preparedness of our military forces, particularly in the tactical area. While it was found by the Subcommittee that conditions at that time did not warrant the declaration of a defense emergency for the purpose of producing Elk Hills, the experience did indicate what could happen during prolonged fuel shortages even with concomitant conservation measures in the private sector. It would be inexcusable to open Elk Hills for production without the nation being faced with a national defense emergency. Further, any such opening on a commercial basis would result in windfall profits to the Standard Oil Company of California that almost certainly would stir considerable speculation regarding favored treatment of big oil companies by the Administration.

Point Paper on S. J. Res. 176, One of the Items Urged for Passage by the President in the 93rd Congress

1) S. J. Res. 176 would make a finding that (a) production of Naval Petroleum Reserve No. 1 is needed for national defense, and (b) that production would begin within 45 days after enactment of the resolution. On June 1, 1974 the Pike Subcommittee, after extensive public hearings, found that neither action was supportable.

2) For the one-year period of production envisioned by S. J. Res. 176 (at the rate of 160,000 barrels a day), a conservative estimate of the income to the United States would be 250 million dollars and an equally conservative estimate of income to Standard Oil Company of California would be 70 million dollars. These figures were calculated on the basis of 80 percent/20 percent division under the <u>current unit plan</u> contract between Standard Oil and the Navy.

3) In the event S. J. Res. 176 should be passed, in my opinion Standard Oil would be successful in vitiating the <u>unit plan</u> contract with the Navy and would, therefore, be entitled to <u>maximum</u> production from its holdings in Elk Hills. This undoubtedly would result in drainage of the entire reserve. Furthermore, at the present time Standard Oil owes the Navy 55 million dollars as the result of financing under the <u>unit plan</u> contract and any cancellation of the contract could also result in a loss of that amount. In addition, the Navy would forfeit all of the wells and fixtures

established on Standard's property. All of this would result in a financial windfall for Standard through the sale of crude oil and a tax write off variously estimated at 200 million dollars. Thus, apart from the obvious advantages accruing to Standard through Elk Hills, there would be the obvious allegation that the Administration was involved in activities for the welfare of Standard that could well pale Watergate into insignificance.

Point Paper on Petroleum Reserve No. 4

1) In addition to the information supplied in the general statement concerning the Petroleum Reserves, with regard to Petroleum Reserve No. 4 it can be stated unequovically that when one is dealing with upwards to 330 billion dollars, which is the estimated value of the crude oil in that reserve, any transfer of that property from the Navy to Interior for purposes of commercial leasing would create a dynamic public reaction. It would seem to me that the Administration could ill afford to again fall under a cloud of suspicion as the result of any transfer of this huge tract from the Navy to Interior for commercial use which were the precise circumstances upon which the Teapot Dome scandal developed. Frankly, after the performance by Interior a few years ago in attempting to bleed Elk Hills for the big oil interests who would unload leases of highly questionable value in the Santa Barbara Channel, and the most recent Watergate experience, I just don't believe the President or the Administration can afford to be entangled in any transactions that would put 330 billion dollars up for grabs in the petroleum industry.

J. Edw. Hébert

M.C.

STATEMENT

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