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DEPARTMENT OF THE AIR FORCE  
OFFICE OF THE SECRETARY

JAN 22 1975

MEMORANDUM  
16 January 1975

MEMORANDUM FOR Counsellor Marsh

Attached is a brief news analysis, prepared by Dr. Annunziata, of published discussions, speculations and suggestions on the oil "shortage" problem. This analysis points up some important and provocative aspects of oil prices, production, distribution and available reserves.

*Harry Zubkoff*

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HARRY ZUBKOFF  
Chief, Executive Agency  
Service (SAF/AAR)

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# NEWS ANALYSIS

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Analyst: Dr. Joseph Annunziata

January 15, 1975

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## USE OF ELK HILLS NAVAL PETROLEUM RESERVE TO HELP RELIEVE US PETROLEUM "CRISIS"

Since the October 1973 Arab-Israeli war, there has been considerable public discussion, much of it confusing, concerning the existence and causes of a US and Western petroleum "crisis." Many statements, including recent Administration ones, have seemed to suggest the view that the "crisis" is due to "Middle Eastern" boycotting and pricing policies, and that even Western military action might be warranted to change those policies.

In contrast to that view, there has been a less prominent, but apparently persistent, view coming from oil-producing countries, particularly in the Middle East, from European countries, and from American Congressional and other public opinion. That view maintains that:

1) There is no "real" petroleum crisis, certainly not in the United States, if not throughout the West. The United States currently produces domestically about 70% of what it consumes and could produce more from currently accessible private and government-owned reserves, if their development were not arbitrarily withheld. Naval Petroleum Reserve No. 1 (Elk Hills, Calif.) contains about 1.4 billion barrels of petroleum and could readily produce 200,000 barrels per day within a short time. Naval Petroleum Reserve Nos. 2 (Buena Vista, Calif.) and 3 (Teapot Dome, Wyo.) have a total production capacity of only 13,000 barrels per day and are therefore of limited value. However, Naval Petroleum Reserve No. 4 (Alaska), which the Geological Survey has estimated to contain up to 33 billion barrels of petroleum, could produce up to 10 million barrels per day if developed over the next 10 years. Moreover, these four Naval Petroleum Reserves are supplemented by reserves which are controlled by the Department of the Interior. Yet, recoverable resources in the four Naval Petroleum Reserves alone come close to the current proven recoverable oil in all domestic oilfields -- about 39 billion barrels. Also, the Navy estimates that its three Naval Oil Shale Reserves in Colorado and Utah contain, at 10 gallons of oil or more per ton of shale, about 26 billion barrels of oil. Furthermore, these Naval Oil Shale Reserves comprise only about 1.8% of the

Federally owned oil shale lands, and the remaining 98.2% are administered by the Department of the Interior. In addition, there are vast quantities of commercially developable petroleum in the continental United States, as well as offshore, whose development is not being sufficiently forwarded; but the economics of maintaining current market and price levels seems to govern the quantity of oil released for domestic consumption rather than the quantity of oil available in this country, or the prices asked for by the OPEC countries. Indeed, the real problem is that the US may end up having a great surplus of oil over the next decade as other sources of energy are developed, unless it prudently develops and consumes some of its enormous petroleum reserves at a measured rate.

2) The atmosphere of "crisis" has been deliberately contrived by the international petroleum corporations. In an effort to increase their profits, they have systematically restricted their exploration, refinement, and distribution of petroleum over at least the last five years. Since October 1973, they have sought to attribute their contrived "shortage" and their accompanying price increases to the coincident movement on the part of certain "Middle East" oil-producing countries to share more equitably in the large profits of the international petroleum corporations, and to use their petroleum resources for greater international economic leverage. Although "Middle East" frequently translates into "Arab" oil-producing countries, Iran is not an Arab country, as frequently implied; only 5% of US petroleum imports come from Arab countries, which amounts to about 1.5% of total US consumption; the "boycott" of October 1973 was readily circumvented and compensated for by imports from other producers; and the increasing petroleum prices began before October 1973 and were stimulated by the international petroleum corporations, part of whose profits the oil-producing countries, led by non-Arab producers such as Venezuela, Canada, and Iran, subsequently decided to participate in. While the West Europeans and Japan rely upon foreign petroleum imports for about 70% of their petroleum needs, they attribute any petroleum "crisis" (which they view more in terms of prices than shortages) less to the policies of "Middle Eastern" oil-producing countries than to a general world inflationary situation, to other non-Middle Eastern oil-producing countries, and to the policies of the major international petroleum corporations.

3) US government officials, including key ones in the Executive and Legislative branches, have cooperated with the international petroleum corporations' endeavor. International oil corporation interests have filtered into such agencies as the Federal Energy Administration, and successfully lobbied against legislation aimed at windfall profits taxes; price rollbacks; eliminating depletion allowances and foreign tax credits; antitrust action; oil corporation activities in conjunction with foreign oil-producing countries; increasing profit margins; and complete government examination of oil corporations' records concerning their reserves, drilling, refining, and distribution. Similarly, these international petroleum

corporations are lobbying for deregulation of natural gas prices. The argument that allowing oil corporations to charge for their products whatever the "free" market will pay, on the grounds that such profit incentives will encourage the corporations to explore and refine more petroleum, is invalid. Depletion allowances and foreign tax credits were supposed to be such incentives, but the corporations pocketed the profits and still contrived the present "shortage" to increase even further their profits. Petroleum prices will not go down if left to the corporations' determination. There is now and will be adequate petroleum in the US, and indeed the West, "as long as the price is right." What is needed are strong government antitrust action, price rollbacks, and true competition in the petroleum marketplace.

One suggestion which has been made to relieve the "crisis" (whether real or contrived) is for the US government to begin full production at the Elk Hills Naval Petroleum Reserve, which would considerably increase US domestic petroleum production almost immediately. Such production would 1) relieve the pressure of demand on the apparent current "shortage," and thus tend to bring down the price of domestic and foreign petroleum; and 2) further reduce US imports of foreign petroleum, if desirable, particularly if its prices are not reduced to below the cost of domestically produced petroleum.

The Administration favors opening up Elk Hills for increased petroleum production. It would turn over all the Naval Petroleum Reserves to the Department of the Interior and open them up to bids for leasing contracts with commercial corporations. Elk Hills, in particular, would be developed by a formula whereby the government would receive 80% of all the oil extracted by the commercial manager. Part of the government's oil would be sold on the commercial market for domestic consumption, and the proceeds from those sales would be used to further develop the government's Alaska Reserve. The remainder of the Elk Hills production would be used to build a "strategic" reserve to be stored underground in salt-dome reservoirs.

However, opponents of this plan include Congressman F. Edward Hébert (D. La.), Chairman of the House Armed Services Committee, who would like to continue to maintain these reserves under control of the Department of Defense, to be used "for strictly defense emergency needs." The Administration and other response to this objection is that there is no more urgent need for the country to develop these reserves than now. While the quantity of oil which the US might require in an "emergency situation" has never been precisely determined or adequately prepared, the Navy is sitting on enough oil to double the amount of the entire US domestic recoverable total. Meanwhile, DoD needs for oil will probably be reduced over the next decade as dependence on nuclear and other forms of energy are developed, and these vast reserves could eventually go unused as the country shifts to other forms of energy use. A national policy with regard to the development and use of the country's four Naval Petroleum Reserves and three Naval Oil Shale Reserves has remained essentially static since their

establishment in 1912. The policy remains basically one of "conservation" in the event of an emergency need for national defense. Production at the reserves for national defense has been authorized by Congress only once, during World War II, when Petroleum Reserve No. 1 was authorized to provide 65,000 barrels per day. There seems to have been little adjustment in policy as the quantity of the reserves has become to be known as much greater than originally thought, as nuclear and other forms of energy have been sought to substitute for oil, as projected war situations have changed since World War I, and as the national and international situation of oil supply and demand have affected the national economy. Rather than waiting for an emergency situation where all US sources of imported oil might be suddenly cut off (highly unlikely, since the US now gets oil from 26 different countries, the Arab boycott affected only 5% of its imports, and was overcome by increased imports from other countries without too much difficulty), the US should think in terms of using its reserves in a measured way to bring down the costs of oil and foreign dependence. While Naval Petroleum Reserve No. 1 is being used, Reserve No. 4 would be developed and would be more than adequate for future "national emergencies." One estimate of a national emergency need is some 2 million barrels per day, all of which could be diverted from civilian consumption even if the plentiful government reserves were not at full production capacity.

Other opponents to the Administration plan for opening up Elk Hills petroleum production fear that any commercial leasing of these reserves might redound to a further windfall to the international petroleum corporations in the area which would do the drilling, refining, and distributing. The current management of Elk Hills is regulated by a 1944 contract with Standard Oil of Southern California, which also owns 20% of the 45,000-acre reserve. If production at the reserve is undertaken for any reason other than "wartime emergency," SOCAL could commercially exploit its one-fifth of the reserve. SOCAL would gain further since it owns the primary pipeline leading out of the reserve and most of the refining capacity in the area. SOCAL has already been charged with draining oil from underneath government property through means of boundary zone drilling and production. Shell Oil also would accrue some benefit from a contract for "excess" oil production at Elk Hills. These objectors would insist at least on a carefully considered re-negotiation of any contract for the commercial exploitation of Elk Hills, if not on complete government ownership of pipelines, refineries, and even the 20% of Elk Hills which SOCAL now owns, so as to prevent monopolistic profiteering by major international petroleum corporations. The management contract with SOCAL is in fact up for renewal in 1976.

Another option has been suggested for the use of Elk Hills, which might satisfy the objections both of those who wish to assure that the reserves will be available for national defense and of those who wish to prevent windfall profits to commercial companies leasing the reserves: the US government could exploit the reserves itself, by creating a federal

oil and gas corporation to undertake production, refining, and distribution, and which would also serve as a "yardstick" to gauge oil-firm profits. However, such an endeavor might be considered as competition with the private petroleum corporations and as government interference with the "free" petroleum marketplace. The commercial oil companies might not appreciate competition from the government in the production of oil, and would not want the government flow of oil on the market to cause a surplus situation which would cause domestic oil prices to go down again. However, rather than enter into direct commercial competition with the private petroleum corporations, such a government endeavor at Elk Hills could produce petroleum for the sole consumption, for example, of the Department of Defense. Current Defense Department petroleum consumption is estimated to be about 600,000 barrels per day (about 3.5% of total US petroleum needs). The estimated 200,000 barrels per day of petroleum which could be produced at Elk Hills for the next 15 to 20 years would satisfy about one-third of the Defense Department's current level of consumption. That total approximates the amount which the Defense Department currently imports from worldwide foreign sources. It also approximates the amount which the United States as a whole imports from Arab countries, and would further mitigate any attempted boycott of these or other foreign imports. In addition to causing a lowering of domestic and foreign petroleum prices, and reducing US reliance, particularly defense reliance, on foreign petroleum, such a government petroleum operation for Defense Department consumption would free more domestic and foreign petroleum for civilian consumption. If the government operation at Elk Hills proved successful, and conditions continued to warrant it, the eventual 10 million barrels-per-day capacity of Reserve No. 4 also could be produced by the government corporation, to satisfy total Defense Department needs, to reduce further US foreign oil imports (currently at 5.5 million barrels per day), or to be stored for national emergency use. Meanwhile, there would still remain other substantial government and private petroleum reserves, while other sources of energy continued to be developed.

## LIST OF APPENDICES

1. Robert Sherrill article on international petroleum industry "hoax." p. 7-9
2. Rep. Bell (R. Calif.) favors opening up Elk Hills for commercial exploitation. p.10-12
3. L.A. Times has doubts about "shortage;" favors using Elk Hills before proceeding to environmentally questionable offshore drilling. p.13-14
4. Sen. Magnuson (D. Wash.), Chairman of Senate Committee on Commerce, blames international corporations for price rises. Rejects deregulation of natural gas as further "blackmail" by oil companies to gain higher prices. p. 15
5. Columnist Nick Thimmesch berates Administration "silly" statements about possible use of force on Middle East oil-producing countries. Says OPEC price rises began before October 1973, and were led by Iran and Venezuela, not Arab countries. Furthermore, most US imported oil comes from Canada, Venezuela, Nigeria and Iran. Arabs unfairly "stereotyped." Japan and Europe don't indulge in such frightening speculation. p. 16
6. Kissinger's talk of force over oil criticized by Europeans and Congressmen. p. 17
7. Federal Energy Administration daily average of US petroleum imports, by source. Week of August 30 - Sept. 5, 1974 (about typical of current average). p. 18
8. Iran defends its price rises. Says "during the course of two decades when the international oil companies were reaping profits exceeding several hundred percent, the oil producers were forced to accept a depressed price for oil arbitrarily set at \$217 in 1947 and reduced to \$1.79 by the year 1971." During that period of time the price of world commodities (which Iran must import) rose 300 to 400 percent. p. 19
9. Administration proposal to have Elk Hills commercially developed opposed by Hébert for "national emergency" reasons on the one hand, and by others because of fear of commercial windfall profits. p.20-27

## OTHER SOURCES

1. GAO report, dated October 5, 1972: "Capability of Naval Petroleum and Oil Shale Reserves To Meet Emergency Oil Needs."
2. House Armed Services Committee report 93-44, "Department of Defense Energy Needs and Reserves," Hearings held January 31, February 4,6,25,26,27, March 8, April 23, May 7, 8, 16, 1974.

October 2, 1974

CONGRESSIONAL RECORD — SENATE

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## THE OLD SHELL GAME

Mr. ABUREZK. Mr. President, Mr. Robert Sherrill, the well-known political scientist and author of the recent book, "Saturday Night Special," has written a highly illuminating article in the October issue of Penthouse. Sherrill's article, "The Old Shell Game" reviews the history of scare campaigns by the major oil companies, campaigns which the companies used to deceive the American people.

Sherrill pulls no punches. The major oil companies after every so-called shortage crisis have emerged richer, more powerful, more concentrated, and more able to exert their will on the country.

This article should be read by all those who do not understand the enormous economic and political power wielded by a few multinational corporations.

Mr. President, I ask unanimous consent that this article be printed in the RECORD.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

[From Penthouse magazine, October 1974]

## THE OLD SHELL GAME

(By Robert Sherrill)

In mid-July 1973, the Federal Trade Commission filed a weighty antitrust complaint against eight of the world's largest oil companies—Exxon, Texaco, Gulf, Mobil, Standard of California, Standard of Indiana, Shell, and Atlantic Richfield—charging them with unlawfully monopolizing refining, driving competitors out of business, manipulating supplies to create a gasoline scarcity, and reaping excessive profits.

A few months later, Japan, now one of the largest consumers of petroleum products, indicted executives of twelve major oil-refining firms for conspiring to fix prices and to curtail production. This was the first criminal charge against a cartel in Japan's twenty-seven-year history of antitrust activity.

Such actions as these do not foretell a loosening of the oil industry's stranglehold on the world, however. Most probably, the above legal fights will be dragged out in court for many years before coming to an inconclusive ending in compromise.

But at least these actions may indicate that a desperate public is at last beginning to wise up to the fact that it cannot go on playing the game of supply-and-demand by the oil industry's whimsical rules. And perhaps the public is beginning—just beginning, in a feeble way—to convey its desperation to some of the governments around the world. That would indeed be a radical change from the past.

For fifty years the major international oil companies have manipulated prices in the United States—and recruited public opinion and government policy to support the manipulations—by a series of fear campaigns that have seldom been challenged.

Since the 1920's, when only one out of every seven Americans owned a motorcar (compared to the one car per two adult Americans today), the national economy and the public's comfort have depended on the automobile. This has provided a perfect context for industrial blackmail, and the oil industry has seized the opportunity, not only to obtain higher prices but to force the State Department and the Justice Department to do its dirty work—by collusion if not always by direct involvement. And the press, whose owners have long been richly subverted by automobile and gasoline advertising, has, with very few exceptions, played along with the industry's game.

An accusation like this will be offensive to most Americans, of course, because it implies that we are a nation of suckers, but there is more than enough proof of its accuracy.

First let us put the present claim of an "oil crisis" in the proper perspective. There have been other "crises"—all of them as phony as this one and all of them contrived for similar reasons. Among men in the industry, these recurring crises are an old, old joke. Fifteen years ago, in a Senate speech little noticed at the time, Senator Russell Long of Louisiana, an oil millionaire himself and a defender of plunder, got to laughing with his Senate colleagues about some of the great hoaxes of the past.

Long ticked off a few examples—the "crisis" of 1914 was one of the best. In that year, Britain was about to enter World War I and had just converted her navy from coal to oil, so it was absolutely vital that her supply of oil be uninterrupted. Obviously, Britain—and France, too, for that matter—were ripe for plucking. All our oil men needed to do was to present a picture of scarcity. This was easy to arrange. In 1914 Standard Oil, monarch of world oil at the time, supported by statements from the U.S. Bureau of Mines (which has always been in the industry's pocket), announced that the United States was down to its last 5.7 billion barrels of oil reserves—scarcely enough to last out the decade—and after that there would be no more. Oil had clearly become a precious commodity. Up went the price.

When the war ended in 1918, the oil companies—instead of running out of oil—were stuck with a surplus. If they had allowed the law of supply and demand to rule prices, oil would have become cheap. To correct that situation the companies contrived another "crisis" in 1920. This time, they persuaded the U.S. Geological Survey to announce that domestic oil production would start to decline sharply within three years, with no hope of recovery. Shortages were reported all over the country—just like today. Gasoline was rationed in California and Oregon. The magazine *Automotive Industries* reported on August 25, 1920, "It is alleged that the shortage of gasoline [in California] was fictitious and due to manipulation. Allegations are made that the refineries created the shortage by shipping gasoline from Los Angeles to northern parts of the state and then, after waiting until the price advanced, bringing it back again for sales purposes."

It worked. When prices reached thirty-seven cents a gallon—which would be about \$1 a gallon by today's prices—the "shortage" disappeared.

But only for a moment. The major U.S. oil companies, especially Standard Oil, were running into stiff competition overseas. By the early 1920's, British oil companies had cornered much of the potential production domains of the Middle East, and were making significant inroads into South American, Mexican, and Dutch East Indies oil lands. American companies feared that they were going to be cut out of the world's booty unless they could frighten the public into supporting a foreign policy that would help American oil companies get foreign leases, "for the national security."

The industry's propagandists began to circulate rumors that we were running out of oil, while Britain was cornering the world's oil market. In fact, they said, we had only enough to last six years—after which we would be at the mercy of Britain, unless something were done. These rumors were so successful that there was actually serious talk in Washington about having to go to war with Britain. That talk ended when the British decided to split the Mideast booty with Standard Oil.

The British weren't fooled. In *The Oil Trusts and Anglo-American Relations*, published in 1924, British writers E. H. Davenport and Sidney Russell Cooke noted wryly, "There is this strange habit peculiar to the American oil industry which one should observe in passing. Although it doubles its output roughly every ten years . . . it declares every other year that its peak of production has been passed and that its oil fields are well-nigh exhausted. . . . Nevertheless new pools are continually producing wells brought in to replace those declining, and each year the total output turns out to be surprisingly greater than the year before: One cannot doubt that the lugubrious prophecies of American oil men are in some way related to the wish for higher prices."

Two years later, having trouble with the pesky Mexicans, who didn't like the idea of Americans stealing their oil, U.S. companies pressured the State Department into strong-arming the Mexican government to allow higher imports into this country. The pressure came with the usual prophecy that the U.S. had only enough oil to last another six years.

During World War II, President Roosevelt and his Interior Secretary, Harold Ickes, tried to get Congress to set up a government-owned corporation, the Petroleum Reserve Corporation, to buy out the Saudi Arabia concessions of Texaco and Standard Oil of California. This would have been the first giant step toward the public's winning independence from the international oil cartel. But the latter successfully pulled its old crisis

trick again. In 1947 the industry announced an imminent shortage—Standard Oil of New Jersey claimed it might not be able to last beyond 1955—and declared that our wells were running dry. The only hope, they said, of preserving American industry and the American motorist was to give private industry not only a free hand in the Middle East, without U.S. government interference, but to encourage the private oil companies with large tax benefits from their overseas operations.

This crisis paid off immediately. The multinational oil giants began carving up the Middle East fields that very same year, 1947, and they did so with a secret promise from the U.S. Justice Department that there would be no prosecution for antitrust violations. Still-classified National Security Council documents show that in 1954 the government turned over our Middle East foreign policy to the oil corporations.

These corporations were further encouraged to exploit the Middle East by a foreign tax credit that was secretly contrived by the National Security Council in 1950 and secretly agreed to by the U.S. Treasury Department. This "golden handshake" permitted the oil companies to deduct from their U.S. taxes all royalties paid to the Middle Eastern governments, dollar for dollar. Thus the oil companies were encouraged to sink money into explorations around the Persian Gulf and to neglect oil explorations at home.

By the mid-1950's the world was awash with oil. The big companies had been so successful in finding oil all over the globe that they didn't know what to do with it. The world price for oil was low indeed—about \$1.50 a barrel below what oil was selling for in the United States. And the oil companies were afraid to import much of the cheap foreign oil lest U.S. prices drop.

So in 1959, claiming that the U.S. domestic companies were imperiled by imported foreign oil and that we faced a shortage of petroleum products because of the lack of exploration in this country, multinational giants persuaded President Eisenhower, always a willing fall guy for the industry, to establish an oil-import quota—allowing only a relative trickle of the foreign supply into this country.

This brings us to the present—the era of the big kill. The profits reaped from scare techniques of the past were nothing compared to what the future could hold. But the industry was now dealing with a more sophisticated citizenry, a citizenry grown somewhat accustomed to cries of havoc. The industry would obviously have to tread more cautiously, prepare its deception more carefully, building a momentum that could not be withstood. It succeeded very well indeed.

To show how it proceeded, we will break down the assault into two waves—natural-gas price propaganda and oil (gasoline, fuel oil) propaganda—so that it can be understood more clearly.

## THE NATURAL-GAS SHORTAGE MYTH

Natural gas supplies Americans with about one-third of their total energy.

Natural-gas prices have supposedly been regulated in interstate commerce since 1938, with the rates set by the Federal Power Commission. The FPC did its job in a very loose fashion, but prices remained low nevertheless because there was not much demand for natural gas in those days. In 1954, as demand began to build up, the federal courts ruled that the FPC was doing a lousy and incomplete job in controlling natural-gas prices and that it should regulate the sale of natural gas not only in the pipeline but also at the wellhead.

Industry's first effort to undercut that ruling came in 1956, when it laid enough money around to persuade Congress to pass a law deregulating natural gas. But that effort was ruined—and Eisenhower, to his annoyance, was forced to veto the law for public-relations reasons—when it came to light that oil and gas lobbyists had in fact been bribing members of Congress.

But in those balmy Republican days, when business got by with just about anything, the FPC largely ignored the courts' edicts anyway. When President Kennedy took over in 1961, however, and his FPC appointees began doing a better job of controlling prices, the industry went back to court in an effort to smash the price-control machinery. It claimed it needed higher prices because the natural-gas supply was dwindling critically. In the interim, while the case made its way to the Supreme Court, the industry kept a low profile by maintaining reasonable prices.

In 1968 the Supreme Court ruled that the FPC's price control policy was fair and that there was no substantial evidence that natural-gas reserves were getting low. In fact, the Court noted that each year industry discovered more new reserves than it produced. In other words, after a careful study ranging over several years, the Supreme Court came to the conclusion that there was no natural-gas shortage, no foreseeable shortage, and, by implication, that prices should not be allowed to balloon until such a shortage might exist.

At that, the oil and gas industrialists became furious. They determined to rid themselves, once and for all, of government price regulations. If the Supreme Court demanded proof of a shortage before it would go along with industry, then industry was prepared to juggle the record to show just that.

For the first time in history, industry began to claim that it was finding less natural gas than it sold—after it had conclusively lost in court. It has been claiming the same thing for every year since.

Do your own investigating on this point. There was not a single magazine article on the topic of energy shortage before the 1968 Supreme Court ruling. Then, all of a sudden, there was a great flurry of articles, a small explosion of concerned chatter, appearing in magazines notorious as industry mouthpieces—*Nation's Business*, *U.S. News*, *Forbes*—heralding an imminent shortage of natural gas. For the first time in the history of U.S. journalism there appeared a general-circulation magazine article with the headline, "Looming Crisis in Natural Gas." Industry's propagandists had begun to shovel it out to their pals in the press.

Pure blackmail. Yet at the beginning of the natural-gas fear campaign, there was an interesting hesitation. Apparently industry was nervous about the public emotions it was stirring up. After all, if the citizens became hysterical, they might do something drastic—like nationalizing the oil and gas industry. So for a while the industry propagandists moved slowly. Even as late as 1971 they were hesitating to claim an outright shortage.

In a full-page advertisement in the *Wall Street Journal* of October 22, 1970, the soothingly: "Recent reports of natural-gas shortages in various parts of the country have apparently led to speculation that we are running out of natural gas. Now this is simply not true. . . . In fact, geologists estimate that proven and potential supplies are over seventy times our present annual consumption rate."

There was no real shortage of gas underground, said the industry, but there was an effective shortage of supply simply because the industry wasn't getting a high enough price. In 1971 advertisements began to appear in *Life* and other national magazines, paid for by the American Gas Association, assuring Americans that there was no reason to lay in a supply of wood and peat because "there's no worry that your home will run short of gas. . . . We've been serving you for 100 years—and we don't intend to stop now." However, the American taxpayer was asked to bear one little burden: "It will take higher prices to keep the gas coming."

Later the industry started playing really dirty. In 1971 James T. Halverson, director of the Federal Trade Commission's Bureau of Competition, uncovered evidence that some of the companies were lying about their natural-gas reserves, disclosing only one-half to one-tenth of their true reserves to the government when they came around asking for rate increases.

John W. Wilson, a career employee of the Federal Power Commission (you must remember that many of the FPC's career people are honest; it's just the politically ap-

pointed commissioners who turn crooked as a matter of policy), told the Senate Antitrust Subcommittee that at least thirteen major producers of natural gas understated their reserves in reports to the FPC. As one example, he pointed out that five companies claimed to have no "available" natural-gas reserves but within weeks thereafter reported to the FPC that they had signed contracts to sell huge amounts of the gas they had claimed they didn't have.

But the industry's fear campaign and its dishonesty and deception have paid off. Since Nixon took office, the Federal Power Commissioners he appointed have raised natural-gas prices more than 300 percent, giving the excuse that gas was scarce and that the increases would encourage producers to look for more.

The industry has also destroyed the old mechanism of setting the price of natural gas according to the cost of production. In 1972 the natural gas companies began to set prices on the basis of what the market would bear—that is, how much the public would stand still for. The Consumer Federation of America estimates that the FPC's new rate-making procedure will add \$500 billion or even \$1 trillion to consumer's gas bills over the life of the nation's reserves.

#### THE OIL-SHORTAGE MYTH

As we pointed out earlier, the international companies' problem in the 1950's and 1960's was not an oil shortage—however much they pretended to be on the brink of one—but a massive oil surplus, so massive that they radically reduced explorations for new fields in the United States (this reduction continued on into the early 1970's; there were only half as many new wells brought into production in this country in 1972 as in 1952). Meanwhile, oil was so plentiful in the rest of the world that it was getting to be a real burden to the marketers. It was so plentiful, in fact, that in 1959 the major oil companies told the Middle East countries that they were going to pay them less for their oil. This sleazy trick on the part of Standard Oil *et al.* made the Middle East oil-producing nations think about organizing to protect themselves. The very next year, 1960, they came together to establish the Organization of Petroleum Exporting Countries (OPEC)—an organization that is responsible for much of today's high oil prices. It was created because of the Arabs' hatred for the stinginess of the Western oil moguls, who wanted to rob not only the consuming nations but the producing nations as well.

Still, OPEC was a long time pulling itself together. It was organized but it wasn't running smoothly and there was still great rivalry among the producing nations. So the oil companies continued to play the sheiks against each other and to run the Middle East through the 1960's.

And they ran it, naturally, in such a way as to keep the supply down and prices up. Secret documents circulated in 1968 within the industry by Standard Oil of California show that industry leaders were gravely concerned about a "large potential surplus" through 1973, and the possibility that when oil began to flow out of the Arctic there would be "extending and magnifying surplus supply problems." Standard of California officials proposed slashing production wherever possible. They were afraid that they could not make "politically palatable" cuts in production in Saudi Arabia and Iran, because the rulers of those countries were getting restless; but according to these private documents, the Standard officials thought they could get by with reductions in Egypt, Nigeria, Libya, Latin America, and Indonesia.

As was the case with natural gas, you will look in vain if you seek to find any

warning of an impending oil shortage in any newspaper or national magazine during the 1960's. This was the "quiet decade," in which the major companies lay low on prices. They had other dirty work to do. During the ominous quiet of the 1960's, they began cornering other energy fields, knowing that when the time came to boost oil prices, the prices of other energy commodities would also soar. Directly, or through corporations in which they held interlocking directorships (directors of the eighteen largest American oil companies in 1974 interlocked 132 times with the boards of banks and other financial institutions, which of course interlock in turn with other major nonenergy corporations), they seized nine of the ten top coal-producing companies that took the lead in leasing 253,000 acres of federal coal. Most of this treasure was cornered when there was still no public discussion of an upcoming energy crisis, and long-term coal leases could be had for pennies. Some of the rich coal deposits were obtained for a yearly rental of twenty-five cents an acre. Such northern Great Plain states as Wyoming, Montana, and North Dakota are well on their way to becoming colonies of the oil-coal companies. In the years ahead they will be scalped by strip-mining machines to feed several hundred plants in which coal will be converted into natural gas and gasoline.

The oil companies were also grabbing 50 percent of known uranium reserves and 25 percent of uranium milling capacity in the 1960's. And let's not forget their takeover of the oil-shale deposits on federal lands, which both Democratic and Republican administrations allowed them to cover at dirt-cheap prices.

From 1968 to 1970, when world demand for oil was soaring, the Shah of Iran tried to persuade the Iranian Oil Consortium, in which Exxon is dominant, to increase production. The Consortium refused. During this same period, Saudi Arabia was trying to convince its producing agent, the Arabian-American Oil Company (ARAMCO: Exxon, Standard Oil of California, Texaco, Mobil) to increase production, but ARAMCO also refused. And Canada was trying to induce the United States to import more of its oil. But the major companies blocked all such offers, claiming America didn't need the foreign oil. In the spring of 1969, M. A. Wright, chairman of Humble Oil (Exxon), assured a Senate antitrust subcommittee that domestic fields alone would be able to meet 82 percent of our oil needs through 1985. (Nowadays, of course, with the "crisis" launched, the industry has adjusted its prediction downwards—now it says domestic oil production will meet only 50 percent of our needs in 1985).

The oil surplus of the 1960's was evidenced in the Green Stamps and free cocktail glasses that were given away to entice customers. Prices were relatively steady between 1959 and 1969, wholesale petroleum prices went up only 5.5 percent, about half as fast as the general wholesale-price index was climbing. But the major oil companies were not unhappy with the prices, for the moment. They used the period to launch massive price wars on the independent producers, on independent refiners, and on cut-rate retail service stations. The majors were immensely successful, measuring their success by the plight of the independent producers alone—whose population dropped from 20,000 to 10,000 in the past fifteen years. (This was a bit of overkill, for the eighteen largest oil companies already controlled 70 percent of the production of American crude oil, controlled 80 percent of domestic refinery capacity, owned 99 percent of the nation's pipeline capacity, and marketed about 72 percent of the gasoline sold in the United States.) Only after wiping out potential competition could the major international oil companies

be guaranteed that their fear campaign would work—when they were ready to launch it.

As part of their planned long-range shortage, the oil industry also refused to build enough refineries in the 1960's to take care of future needs. In the past ten years, fewer than half a dozen major refineries (over 50,000 barrels-a-day capacity) were built in the U.S. The industry magazine, *Oil & Gas Journal*, appraised this period euphemistically as "a lull in construction to let demand catch up a bit." Moreover, not one new domestic refinery was built in the last four years, though consumption was soaring.

Meanwhile, however, the international giants were pouring money into overseas refineries and overseas retail outlets. They were, in short, rearranging their operations in such a way that when they put the U.S. market in a vise, they would go on operating at their usual pace in other countries.

The biggest companies—Exxon, Texaco, Gulf, Mobil, Standard of California, etc.—had been quietly shifting their focus to the overseas market for twenty years. In the early 1950's these companies—which are still viewed erroneously as "American" companies, when in fact their allegiance departed these shores long ago—were selling most of their oil products to the U.S. market. By the early 1960's they were selling only about 50 percent of their products here. By the start of this decade, two-thirds of their market was in Europe and Japan.

Let's pause a moment to recapitulate. Up to this point, we have seen the major international oil companies build toward the oil crisis by (1) forcing independent competitors out of business, (2) cutting back on production in the rich Middle East fields and refusing to import more of the available oil in Canada, (3) failing to build needed refineries, (4) refusing to increase oil explorations in the United States, and (5) shifting the bulk of their marketing to Europe and Japan, where there is no domestic oil production and consumers are even more at their mercy than are U.S. consumers.

All of this was being aimed at the 1971-1974 showdown. Now they were ready to cry crisis. They blamed many things—a cutback in production by Libya, a pipeline rupture in Saudi Arabia, a scarcity of tankers. But there was an interesting aspect to the timing. The oil industry had started complaining about a "shortage" and had started pushing up its prices in April 1970, but the Arabian pipeline didn't break until May and the Libyan cutback occurred sometime thereafter. As for the tanker shortage, only about 3 percent of our oil was being imported by tanker from the Middle East, and this amount could easily have been made up from sources closer to home.

When this fishy timetable was put together in testimony before a House investigating committee in 1971, Massachusetts congressman Silvio Conte correctly concluded that the price of oil had not been pushed up by logical and justifiable conditions in the marketplace but simply because "there was a conspiracy among the oil companies." As Conte put it, "it is either conspiracy or a gross miscalculation by the oil companies. And I can't believe that the oil companies would miscalculate the situation, because they certainly have the finest backup force of any industry in the world, and they very, very seldom make a miscalculation."

When the companies began their oil-shortage scare, they laid it on with a passion. In 1971, six of the largest firms (Exxon, Shell, Amoco, Gulf, Mobil, and Texaco) shoveled more than \$110 million into advertising. The next year, four companies alone—Exxon, Shell, Texaco, and Gulf—spent \$137 million on "crisis" advertising, and the American Petroleum Institute spent another \$3 million.

But the industry didn't rely on propaganda alone. In 1972, the nation's ten largest oil companies increased the pinch by deliberately slowing down their refinery output by 3 percent, according to the Senate Permanent Investigation Subcommittee staff. And, according to Senator Frank E. Moss, the major oil companies stored—hid—about eleven million barrels of home heating oil on the East Coast during the winter of 1972 while Americans in the Upper Plains states suffered severe shortages. Their screams helped condition the nation.

The October 1973 outbreak of the Arab-Israeli war gave the international giants exactly the crisis atmosphere they needed to really tighten the screws. (Conveniently, the war started within a few months after the U.S. oil-embargo program, started in 1959, ended. If the war hadn't come up, the oil companies would have had a hard time thinking up an excuse to keep Mideast oil out of the U.S.) The sheiks of Saudi Arabia, Kuwait, and other oil-rich kingdoms of the Persian Gulf grandly announced that they were embargoing oil to the United States and the Netherlands because those two nations were friendly to Israel.

At once the Nixon administration and the oil companies declared an emergency. They said we would shortly be starving for oil. Nixon grimly warned the nation that there was no way to make up the 17 percent of our oil that came from the Persian Gulf area. But that 17 percent figure was, to put it politely, a lie. We were getting only 6 percent of our oil from that area of the world (according to many reputable sources, including the Organization for Economic Cooperation and Development, which represents the major non-Communist industrial nations). Furthermore, the embargoed Mideast oil could easily have been made up from other sources. Robert B. Stobaugh, coordinator of the Harvard Business School Energy Project, pointed out that the crimping of shipments from the Mideast was not so important because "about half of the non-Communist world's crude oil production outside of North America is controlled by eighteen U.S.-headquartered oil companies, principally Exxon, Texaco, Gulf, Standard of California, and Mobil. These firms, along with other big oil companies such as British Petroleum and Royal Dutch Shell, can switch Arab oil to countries now using non-Arab oil, thereby making non-Arab oil available to the U.S."

The Netherlands, supposedly being embargoed by the Arabs, wasn't suffering at all. Jack Bax, a press aide for the city of Rotterdam, Europe's largest oil port, told reporters in January, "Personally I think the whole thing is a hoax."

The Shah of Iran (where the Consortium still had seven big fields closed down) thought the U.S. was also being hoaxed. Referring to the so-called Middle East embargo, the Shah told TV interviewer Mike Wallace in February, "Why should you care about that? You are not short of oil." He went on to say that the U.S. was then importing "more oil than at any time in the past," sidestepping the phony embargo simply by shuffling the oil from one nation to another. Asked if he thought the companies were defrauding the public, he replied, "Well, something is going on for sure."

Something was indeed going on. On December 9, 1973, Washington Post reporter George Wilson disclosed that, according to the American Petroleum Institute's own figures, the major companies were pumping 16 percent less oil from U.S. wells than they could have. A month earlier it was discovered that the United States companies had been exporting oil at a rate five times the normal level. The push for a contrived scarcity in the United States was well under way. (But there was no scarcity in Europe, where the price was right. On May 15, 1973, Amoco placed a full-page advertisement in the *Financial Times* of

London soliciting new industrial customers and promising "secure" gasoline. Five days later Amoco placed a two-page advertisement in the *Washington-Star News*, explaining that its American customers would "have to get by with a little less for a while, so there'll be enough to go around.") In March 1974, as gasoline lines in the U.S. were stretching for blocks, international oil brokers in Vienna reported that American petroleum companies had offered two million tons of crude oil in European markets at prices below current market levels. Two economists with the Federal Power Commission admitted in testimony before the Senate Antitrust and Monopoly Subcommittee that the major oil companies were withholding from production untold quantities of oil and natural gas on 800,000 acres of leased land off the Louisiana and Texas coasts. At the same time, the majors continued to butcher their weak competitors, the independent refineries and the cut-rate retail dealers, simply by cutting off their supply of oil and gas. More than a thousand independent dealers went out of business in 1973.

#### THE RESULTS

The results are the same as after every "shortage crisis" this century: prices shot up, and the industry became more concentrated and more powerful and more uncontrollable. In May 1974, Senator Philip Hart, chairman of the Senate Antitrust Subcommittee, announced that oil and gasoline price rises during the previous year alone had cost consumers \$35.5 billion and that the annual cost-increase would continue at that level—until the oil companies decided to scare the prices even higher, of course. Each penny added to the price of a gallon of gasoline was said to put an extra billion dollars in the pocket of the oil industry. Profits for the top ten oil companies alone were expected to hit \$7.8 billion in 1974—an increase of 51.2 percent over 1973. The oil industry's profits had already risen 60 percent in 1973, a year that saw the top twenty-one companies earn \$10 billion—a dazzling record in the history of U.S. industry. Marathon Oil profits were up 97 percent, Gulf up 86 percent, Standard Oil of Ohio up 76 percent, and so forth.

The facts behind the "shortage" started surfacing earlier this year, when leaders of the industry began saying openly that they knew where plenty of oil and gas could be found—at the right price. Jim Langdon, chairman of the Texas Railroad Commission, which controls oil production in that state on behalf of the major companies, went so far as to say, "If this country wants to spend the money to do it, we can compete with the Arabs for the world oil market."

In January 1974, when the gas-station lines were just beginning in some parts of the country, a Washington economist predicted, "Last January, regular gasoline cost about thirty-eight cents a gallon on a national average, including taxes. By the end of December it was up to forty-four cents. When it gets up to fifty-five or sixty cents, the country might suddenly discover something in mid-1974 that the oil shortage seemed to be over."

And that's what happened. History was simply repeating itself.

2. Rep. Bell (R. Calif.) favors opening up Elk Hills for commercial exploitation.

# Elk Hills Supply Should Be Tapped Instead

*L.A. Times Oct 13, 1974*

BY ALPHONZO BELL

that significant production should begin as quickly as possible.

Elk Hills reserves in Kern County. This major oilfield has not been adequately



SAN DIEGO UNION 15 NOVEMBER 1974 (26)

# Elk Hills: Should Oil Be Shared?

## Reserve Is Needed For Civilian Use

ALPHONZO BELL

Statement By Congressman Bell

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MERYL COMER: In the scramble to find and develop alternate sources of energy, a demand today by California Congressman Alphonzo BELL that the Navy stop hoarding oil supplies in its Elk Hills, California petroleum resource.

ALPHONZO BELL: The Navy does not need those reserves. Absolutely not. In the first place you must recognize that we in the nation have 11 million barrels a day of production in this nation. Then the requirements of the military under the most extreme need would be no more than two million barrels a day. We have 11 million barrels a day.

So the Navy would obviously get off the top, top priority in any oil that was available to the nation. The civilians would come last. So the military gets the first priority anyway.

I appreciate that there's only 300,000 barrels a day that we could probably get from there within three years. But nevertheless the important thing to remember is that this affects our balance of payment to the tune of \$1 billion a year. In other words, just multiply it out. Three-hundred thousand barrels a day at \$10,00 a barrel, it comes out \$1 billion a year. And that's a lot of money that the United States can use right now in our balance of payments.

In addition to that there's a tremendous amount of energy when you think about 300,000 barrels a day, that's a lot of oil. For example, California today is buying Arab oil at about 250,000 barrels a day. With Elk Hills production you would have to -- you would be able to eliminate all of that Arab oil production that we're buying today in California.

3. L.A. Times has doubts about "shortage;" favors using Elk Hills before proceeding to environmentally questionable offshore drilling.

## Tapping the Elk Hills Reserve

L.A. Times October 6, 1974

# Offshore Oil: a Need for Answers

L.A. Times Dec. 13, 1974

4. Sen. Magnuson (D. Wash.), Chairman of Senate Committee on Commerce, blames international corporations for price rises. Rejects deregulation of natural gas as further "blackmail" by oil companies to gain higher prices.

## *Natural Gas and the Trade Bill*

Washington Post Dec. 9, 1974

5. Columnist Nick Thimmesch berates Administration "silly" statements about possible use of force on Middle East oil-producing countries. Says OPEC price rises began before October 1973, and were led by Iran and Venezuela, not Arab countries. Furthermore, most US imported oil comes from Canada, Venezuela, Nigeria and Iran. Arabs unfairly "stereotyped." Japan and Europe don't indulge in such frightening speculation.

Nick Thimmesch

Baltimore Sun Jan 8, 1975

## Threats On Oil Signify Stupidity

Washington.

6. Kissinger's talk of force over oil criticized by Europeans and Congressmen.

NEW YORK TIMES 6 January 1975 Pg. 3

# ***Kissinger's Talk of Force Over Oil Stirs the Germans***

Special to The New York Times

Le Monde seized on Mr. Kissinger's remarks about force, and his criticism of European "hos-

"that?" and answered his own question by saying, "If there were really no possibility the

Representative Henry Reuss, Democrat of Wisconsin, said it was "immoral" for Mr. Kis-

7. Federal Energy Administration daily average of US petroleum imports, by source.  
 Week of August 30 - Sept. 5, 1974 (about typical of current average).

**FEDERAL ENERGY ADMINISTRATION**  
Daily Average Of  
U.S. Petroleum Imports (33% of U.S. demand)

Week of August 30 to September 5, 1974

<u>COUNTRY</u>	<u>% OF CRUDE IMPORTED</u>	<u>% OF REFINED IMPORTED</u>	<u>% OF TOTAL IMPORTED</u>	<u>% OF TOTAL U.S. DEMAND</u>
Venezuela	8.5	41.8	19.3	6.4
Nigeria	27.5	.4	18.7	6.2
Canada	22.3	7.2	17.4	5.7
Netherlands Antilles	6.6	11.6	8.2	2.7
Trinidad	4.1	7.8	5.3	1.7
Virgin Islands	1.1	14.2	5.3	1.7
Iran	7.0	0	4.7	1.5
Indonesia	6.3	1.1	4.6	1.5
Bahamas	2.7	2.6	2.7	.8
Emirates	1.5	0	1.0	.3
Kuwait	1.1	0	.8	.3
Algeria - Arab	.7	1.0	.8	.3
Saudi Arabia	.9	0	.6	.2
Tunesia	.9	0	.6	.2
12 Others	13.4	12.3	10.0	3.5
<b>26 Countries</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>33.0</b>
	(3,752,000 barrels/ day)	(1,806,000 barrels/ day)	(5,558,000 barrels/day)	(17,674,000 b/d)

ANALYSIS

- \* Only 33% of our oil needs are imported.
- \* Venezuela, Nigeria, and Canada provide over 55% of those imports.
- \* We buy directly from Arab countries only 5% of our crude imports, 1% of our refined imports, and only 3.8% of our total imports. This is only 1.3% of our total oil needs. (Some of the oil we import from other countries may come indirectly from Arab countries, but those sources were not necessarily cut off by the boycott.)
- \* The price increases on our oil imports are not a result only of Arab action, but Venezuela, Nigeria, Canada, and Iran are perhaps even more responsible.

8. Iran defends its price rises. Says "during the course of two decades when the international oil companies were reaping profits exceeding several hundred percent, the oil producers were forced to accept a depressed price for oil arbitrarily set at \$2.17 in 1947 and reduced to \$1.79 by the year 1971." During that period of time the price of world commodities (which Iran must import) rose 300 to 400 percent.

Wash. Post Jan. 5, 1975

So far as the question of oil prices, it is sufficient to point out that during the course of two decades when the international oil companies were reaping profits exceeding several hundred percent, the oil producers were forced to accept a depressed price for oil arbitrarily set at \$2.17 in 1947 and reduced to \$1.79 by the year 1971. During that period of time the price of world commodities rose by 300 to 400 per cent. Is it the contention that the industrialized world should continue to export inflation and prosper on the basis of cheap energy while oil producers are deprived of the right to make maximum and intelligent use of their natural resources. This reminds me of the saying that whatever is mine is mine and whatever is yours is negotiable. It would be regrettable if this philosophy served as the yardstick for the conduct among nations. Iran with a population of more than 32 million people and an unlimited absorptive capacity is cognizant of its new responsibilities. It has not only devoted its increased revenues to restoring the greatness of its ancestors but has earmarked 7 per cent of its GNP to aid to a variety of countries in the world. Here, it might be worth noting that the U.S. assistance abroad despite its trillion dollar GNP is less than one half of 1 per cent. In this regard, one should mention the several hundred per cent increases in the price of sugar, vegetable oil, wheat, cement and other products. As my sovereign has repeatedly stressed, the price of oil should be linked to an index of between 20 to 30 basic commodities. It is wishful thinking to expect that the price of oil which has affected inflation in the West by no more than 1 to 1½ per cent will fall while the prices of world commodities are rapidly increasing. In this connection, it is now reported that Secretary of State Henry Kissinger is agreeable to Iran's proposal to establish such a linkage between the prices of oil and other commodities.

**Ardeshir Zahedi,**  
Ambassador of Iran.

9. Administration proposal to have Elk Hills commercially developed opposed by Hebert for "national emergency" reasons on the one hand, and by others because of fear of commercial windfall profits.

LOS ANGELES TIMES - 16 OCTOBER 1974

# Elk Hills May Be Largest U.S. Oil Reserve Outside of Alaska

**Previous Estimates Placed It Third; Could Contain Up to  
5 Billion Barrels, Much of It Scarce Low-Sulfur Petroleum**

**BY JOHN DREYFUSS**

**Times Staff Writer**

**CHRISTIAN SCIENCE MONITOR**

**5 NOVEMBER 1974**

# **Should U.S. develop Navy's oil reserves?**

**By Guy Halverson and Monty Hoyt**  
Staff correspondents of  
The Christian Science Monitor

**Washington**

SAN DIEGO UNION

15 NOVEMBER 1974 (16)

# Defense Requirements Come First

*JOHN E. MOSS*

the taxpayers; one that has re-

Fri., Nov. 15, 1974 ★

San Francisco Chronicle 33

# Navy Maps Big Oil Development for Elk Hills

*By Bill Rintoul  
Oil Correspondent*

The Elk Hills field is not fully explored, and the de-

New Orleans Times-Picayune Nov. 29, 1974

# Navy's Oil Reserves Spur Struggle Atop Capitol Hill

By PETER J. BERNSTEIN

(Times-Picayune National Service)

CHICAGO SUN-TIMES — 9 DECEMBER 1974

# How oil firms move in on U.S. reserve

By Bruce Ingersoll  
Sun Times Bureau

On Oct. 10, they met with President Ford to line up administration support for Melcher's bill that would turn the naval reserves over to Morton and permit commercial develop-

WALL STREET JOURNAL -

JANUARY 1965 No. 5

# Accord on Developing Naval Oil Reserves Is Reached by Ford, Key Congressman

By BURT SCHORR

Staff Reporter of THE WALL STREET JOURNAL

furthermore has indicated that it would accept the kind of revisions Mr. Hebert has in mind.

BALTIMORE SUN 10 JANUARY 1975, Pg. 4

# Ford plan to use Elk Hills oil reserve runs into continuing Hebert opposition

By STEPHEN E. NORDLINGER

Washington Bureau of The Sun

THE WHITE HOUSE  
WASHINGTON

MAS-

For 10:15

WJTT



THE WHITE HOUSE  
WASHINGTON

February 3, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: FRANK ZARB  
FROM: JERRY H. JONES  
SUBJECT: Naval Petroleum Reserves

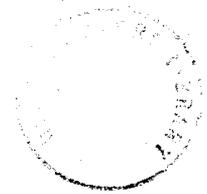
Your memorandum to the President of January 18 on the above subject has been reviewed and the following notation was made:

-- Shouldn't we get House and Senate Committee Chairmen and ranking Minority down? Should we include Hebert as well as Price, the Chairman? What do Jack Marsh and Max think?

Please follow-up with the appropriate action.

Thank you.

cc: Don Rumsfeld  
Jack Marsh  
Max Friedersdorf  
Mike Duval  
Warren Rustand



March 24, 1975

MEMORANDUM FOR:      **RUSS ROURKE**

FROM:                   **JACK MARSH**

SUBJECT:                **ELK HILLS**

On the forthcoming visit to California, on Saturday the President plans to stop by the Elk Hills petroleum reserve area which is controlled by the Navy, for inspection. You should be aware that the President is very concerned that the Navy is dragging their feet in developing these petroleum reserves.

I would like for you to devote some time this week to working on this project, and this would include the following:

- a. Background statement on Elk Hills.
- b. Current status of its management and development.
- c. The status of the Navy plans to bring it on stream.
- d. Status of legislation.

I suggest that you go over to the Pentagon and meet with those Defense officials responsible for this, to include: The Assistant Secretary of Defense, Arthur Mendolia, who handles logistics; Secretary of the Navy, Middendorf; and Assistant Secretary of the Navy for Logistics, Jack Bowers. I do not believe it is necessary to meet with the senior uniformed officials of the Navy inasmuch as this is a logistics problem which is being handled on the civilian side principally.

You might discuss this with me further to develop a plan on what you will be doing.



THE WHITE HOUSE

WASHINGTON

August 6, 1975

MEMORANDUM FOR: JACK MARSH

FROM: CHARLES LEPPERT, JR. *CLJ*

SUBJECT: Status of Naval Petroleum Reserves  
Legislation (Elk Hills)

The House of Representatives on July 8, 1975 passed by a vote of 391-20, H. R. 49, authorizing the Secretary of the Interior to establish on certain public lands of the United States national petroleum reserves for development and regulation consistent with the total energy needs of the nation. H. R. 49 was reported by the House Committee on Interior and Insular Affairs.

On the same day, the House, by a vote of 102-305 rejected H. R. 5919, as a substitute for H. R. 49. H. R. 5919 was the bill reported by the House Committee on Armed Services and supported by the Administration.

Also on July 8, the Senate passed by a vote of 91-0, S. 677 which authorized the creation and maintenance of strategic reserves of crude oil and petroleum products to insulate the nation against future interruption of oil imports. Creation of a similar reserve system was requested by the Administration in the omnibus energy bill sent to the Congress in February 1975. S. 677 was reported by the Senate Interior and Insular Affairs Committee.

During the Senate debate on S. 677, Senator Howard Cannon, Chairman of the Senate Armed Services Subcommittee dealing with naval petroleum reserves agreed to consider a bill permitting some production from the naval petroleum reserves for use in creating a national strategic reserve. Thereafter, the Senate passed S. 2173.

The Senate on July 29, by a vote of 93-2 passed S. 2173 authorizing the creation of a national strategic petroleum reserve and providing for limited production from naval petroleum reserves. The Senate then took up H. R. 49, struck everything after the enacting clause and substituted the provisions of S. 2173 as passed by the Senate. S. 2173 was reported by the Senate Committee on Armed Services.

S. 2173, as amended and passed by the Senate has been sent to the House of Representatives. S. 2173 is now pending at the desk before the Speaker of the House awaiting action of the House. As of August 1, 1975, the House had taken no action on S. 2173. The House may disagree and ask for a conference and appoint Conferees, amend S. 2173 and return it to the Senate or refer S. 2173 to a Committee of the House.

The chief differences between H. R. 49, as passed by the House and S. 2173, as passed by the Senate are as follows:

- H. R. 49 provides for unlimited production from naval petroleum reserves and transferred jurisdiction to the Department of Interior from Defense.
- S. 2173 sets a maximum efficient rate of production from each reserve of 350,000 barrels per day for a period of five (5) years and retains jurisdiction of the naval petroleum reserves in the Department of Defense.

cc:Bill Kendall

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cc:Bill Kendall

*Cong relations*

February 28, 1976

MEMORANDUM FOR: MAX FRIEDERSDORF

FROM: JACK MARSH

The President asked for a status report on Elk Hills, which Bob prepared.

I believe it would be helpful if a member of your House staff could follow-up on this measure this week. The President is most anxious to get this through.

Many thanks.

cc: Bob Wolthuis

JOM/dl

*Friedersdorf*  
*SS*

*memo*  
*memo Marsh*



THE WHITE HOUSE

WASHINGTON

THE PRESIDENT HAS SEEN.....

February 24, 1976

MEMORANDUM FOR: JACK MARSH  
FROM: BOB WOLTHUIS *RKW*  
SUBJECT: Status of Elk Hills Legislation

The staffs of the House Interior Committee and the Senate and House Armed Services Committees have been meeting on the Elk Hills legislation. The Committee negotiations have been making some progress. The Conferees themselves have not been meeting in formal session.

The hang-up remains jurisdiction over Pet-4 in Alaska. Congressman Melcher (D-MONT) is holding out for Interior Department exploration, development and funding at Pet-4. The Armed Services people, especially Eddie Hebert and Howard Cannon are still holding out for Navy control over Pet-4 exploration.

MAR 1 1976

RED TAG

THE WHITE HOUSE

WASHINGTON

March 1, 1976

MEMORANDUM FOR:

MAX L. FRIEDERSDORF

THRU:

VERN LOEN

FROM:

CHARLES LEPPERT, JR.

SUBJECT:

H. R. 49, Naval Petroleum Reserves

Attached is a copy of H. R. 49, the Naval Petroleum Reserves Production Act of 1976, indicating the remaining issues to be decided by the Conferees.

It is anticipated that the remaining issues can be decided in one more meeting of the conferees which at this time is not scheduled but is expected to take place this week.

Attachment

✓ cc: Jack Marsh



Corrected Copy  
pp. 9+31

# CONFERENCE PRINT NO. 21

MARCH 1, 1976

HOUSE POSITION—BOLD TYPE  
SENATE POSITION—BLACK BRACKETS

94TH CONGRESS  
2D SESSION

# H. R. 49

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IN THE SENATE OF THE UNITED STATES

JULY 9 (legislative day, JULY 7), 1975

Received

JULY 29, 1975

Considered, amended, read the third time, and passed

[Insert the part printed in italic]

MARCH , 1976

Reported by Mr. -----, with an amendment to the title

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## AN ACT

To authorize the Secretary of the Interior to establish on certain public lands of the United States national petroleum reserves the development of which needs to be regulated in a manner consistent with the total energy needs of the Nation, and for other purposes.

- 1 *Be it enacted by the Senate and House of Representa-*
- 2 *tives of the United States of America in Congress assembled,*
- 3 *That this Act may be cited as the "Naval Petroleum Reserves*
- 4 *Production Act of 1976".*

J. 67-107—1

1 *TITLE I—NATIONAL PETROLEUM RESERVE*2 *IN ALASKA*3 *DEFINITIONS*

4 *SEC. 101. As used in this title, the term "petroleum"*  
 5 *includes crude oil, gases (including natural gas), natural*  
 6 *gasoline, and related hydrocarbons, oil shale and the products*  
 7 *of such resources.*

8 *DESIGNATION OF THE NATIONAL PETROLEUM RESERVE*9 *IN ALASKA*

10 *SEC. 102. The area known as Naval Petroleum Reserve*  
 11 *Numbered 4, Alaska, established by Executive order of the*  
 12 *President, dated February 27, 1923, except for tract Num-*  
 13 *bered 1 as described in Public Land Order 2344, dated*  
 14 *April 24, 1961, shall be transferred to and administered by*  
 15 *the Secretary of the Interior in accordance with the provi-*  
 16 *sions of this Act. Effective on the date of transfer all lands*  
 17 *within such area shall be redesignated as the "National Pe-*  
 18 *troleum Reserve in Alaska" (hereinafter in this title referred*  
 19 *to as the "reserve"). Subject to valid existing rights, all lands*  
 20 *within the exterior boundaries of such reserve are hereby*  
 21 *reserved and withdrawn from all forms of entry and disposi-*  
 22 *tion under the public land laws, including the mining and*  
 23 *mineral leasing laws, and all other Acts: Provided, That,*  
 24 *the Secretary may (i) make dispositions of mineral materials*  
 25 *pursuant to the Act of July 31, 1947 (61 Stat. 681), as*

1 *amended (30 U.S.C. 601), for appropriate use by Alaska*  
 2 *Natives and (ii) make such dispositions of mineral materials*  
 3 *and grant such rights-of-way, licenses, and permits as may*  
 4 *be necessary to carry out the responsibilities authorized by*  
 5 *this Act: Provided further, That the Secretary of the Interior*  
 6 *is authorized to convey the surface of lands properly selected*  
 7 *on or before December 18, 1975, by Native village corpora-*  
 8 *tions pursuant to the Alaska Native Claims Settlement Act.*  
 9 *All other Acts and actions heretofore taken reserving such*  
 10 *lands as a Naval Petroleum Reserve shall remain in full*  
 11 *force and effect to the extent not inconsistent with this Act.*

12 *TRANSFER OF JURISDICTION*

13 *SEC. 103. (a) Jurisdiction over the reserve shall be*  
 14 *transferred by the Secretary of the Navy to the Secretary of*  
 15 *the Interior as soon as practical, but not later than October 1,*  
 16 **[1977] 1976.**

17 *(b) With respect to any activities related to the protec-*  
 18 *tion of environmental, fish and wildlife, and historical or*  
 19 *scenic values, the Secretary of the Interior shall assume all*  
 20 *responsibilities as of the date of the enactment of this title. As*  
 21 *soon as possible, but not later than the effective date of trans-*  
 22 *fer, the Secretary of the Interior may promulgate such rules*  
 23 *and regulations as he deems necessary and appropriate for*  
 24 *the protection of such values within the reserve.*

25 *(c) The Secretary of the Interior shall, upon the effective*

1 date of the transfer of the reserve, assume the responsibilities  
2 and functions of the Secretary of the Navy under any con-  
3 tracts which may be in effect with respect to activities within  
4 the reserve.

5 (d) On the date of transfer of jurisdiction of the reserve,  
6 all equipment, facilities, and other property of the Depart-  
7 ment of the Navy used in connection with the operation of  
8 the reserve, including all records, maps, exhibits, and other  
9 informational data held by the Secretary of the Navy in  
10 connection with the reserve, shall be transferred without  
11 reimbursement from the Secretary of the Navy to the Secre-  
12 tary of the Interior who shall thereafter be authorized to use  
13 them to carry out the purposes of this title.

14 (e) On the date of transfer of jurisdiction of the re-  
15 serve, the Secretary of the Navy shall transfer to the Secre-  
16 tary of the Interior all unexpended funds previously appro-  
17 priated for use in connection with the reserve and all per-  
18 sonnel ceilings assigned by the Secretary of the Navy to  
19 the management and operation of the reserve as of Janu-  
20 ary 1, 1976.

21 ADMINISTRATION OF THE RESERVE

22 SEC. 104. (a) Except as provided in subsection (e)  
23 of this section, production of petroleum from the reserve is  
24 prohibited and no development leading to production of

1 petroleum from the reserve shall be undertaken until author-  
2 ized by an Act of Congress.

3 (b) Any exploration within the Utukok River, the  
4 Teshekpuk Lake areas, and other areas designated by the  
5 Secretary of the Interior containing significant subsistence,  
6 recreational, fish and wildlife, and historical or scenic values,  
7 shall be conducted in a manner which will assure the maxi-  
8 mum protection of such surface values to the extent consistent  
9 with the requirements of this Act for the exploration of the  
10 reserve.

11 (c) The Secretary of the Navy shall continue the on-  
12 going petroleum exploration program within the reserve until  
13 the date of the transfer of jurisdiction specified in section  
14 102(a). Prior to the date of such transfer of jurisdiction  
15 the Secretary of the Navy shall—

16 (1) cooperate fully with the Secretary of the Interior  
17 providing him access to such facilities and such informa-  
18 tion as he may request to facilitate the transfer of  
19 jurisdiction;

20 (2) provide to the Committees on Interior and  
21 Insular Affairs of the Senate and the House of Rep-  
22 resentatives copies of any reports, plans, or contracts  
23 pertaining to the reserve that are required to be submitted

1 to the Committees on Armed Services of the Senate and  
2 the House of Representatives; and

3 (3) cooperate and consult with the Secretary of the  
4 Interior before executing any new contract or amend-  
5 ment to any existing contract pertaining to the reserve  
6 and allow him a reasonable opportunity to comment on  
7 such contract or amendment, as the case may be.

8 (d) The Secretary of the Interior shall commence further  
9 petroleum exploration of the reserve as of the date of transfer  
10 of jurisdiction specified in section 102(a). In conducting this  
11 exploration effort, the Secretary of the Interior—

12 (1) is authorized to enter into contracts for the  
13 exploration of the reserve, except that no such contract  
14 may be entered into until at least thirty days after  
15 the Secretary of the Interior has provided the Attor-  
16 ney General with a copy of the proposed contract and  
17 such other information as may be appropriate to de-  
18 termine legal sufficiency and possible violations under,  
19 or inconsistencies with, the antitrust laws. If, within  
20 such thirty day period, the Attorney General advises the  
21 Secretary of the Interior that any such contract would  
22 unduly restrict competition or be inconsistent with the  
23 antitrust laws, then the Secretary of the Interior may not  
24 execute that contract;

25 (2) shall submit to the Committees on Interior and

1 Insular Affairs of the Senate and the House of Repre-  
2 sentatives any new plans or substantial amendments to  
3 ongoing plans for the exploration of the reserve. All plans  
4 submitted to such committees pursuant to this section shall  
5 contain a report by the Attorney General of the United  
6 States with respect to the anticipated effects of such plans  
7 on competition. Such plans or amendments shall not be  
8 implemented until sixty days after such plans have been  
9 submitted to such committees; and

10 (3) shall report annually to the Committees on In-  
11 terior and Insular Affairs of the Senate and the House  
12 of Representatives on the progress of, and future plans  
13 for, exploration of the reserve.

14 (e) Until the reserve is transferred to the jurisdiction  
15 of the Secretary of the Interior, the Secretary of the Navy  
16 is authorized to develop and continue operation of the South  
17 Barrow gas field, or such other fields as may be necessary, to  
18 supply gas to the native village of Barrow, and other com-  
19 munities and installations at or near Point Barrow, Alaska,  
20 and to installations of the Department of Defense and other  
21 agencies of the United States located at or near Point Bar-  
22 row, Alaska. After such transfer, the Secretary of the In-  
23 terior shall take such actions as may be necessary to continue  
24 such service to such village, communities, installations, and  
25 agencies at reasonable and equitable rates.

## STUDY OF THE RESERVE

1            *SEC. 105. (a) Section 164 of the Energy Policy and*  
 2 *Conservation Act of December 22, 1975 (89 Stat. 871, 889),*  
 3 *is hereby amended by deleting in the first sentence "to the Con-*  
 4 *gress" and by inserting in lieu thereof "to the Committees on*  
 5 *Interior and Insular Affairs of the Senate and House of*  
 6 *Representatives".*

7            *(b) (1) The Secretary of the Interior, [Administrator*  
 8 *of the Federal Energy Administration] in consultation*  
 9 *with the State of Alaska, together with representatives of*  
 10 *such other executive departments or agencies as he may deem*  
 11 *appropriate, shall conduct a study to determine the best*  
 12 *overall procedures to be used in the development, production,*  
 13 *transportation, and distribution of petroleum resources in*  
 14 *the reserve. Such study shall include, but shall not be limited*  
 15 *to, a consideration of—*

16            *(A) the alternative procedures for accomplishing the*  
 17 *development, production, transportation, and distribu-*  
 18 *tion of the petroleum resources from the reserve, and*

19            *(B) the economic and environmental consequences of*  
 20 *such alternative procedures.*

21            *(2) The Secretary of the Interior [Administrator of*  
 22 *the Federal Energy Administration] shall make semiannual*  
 23 *progress reports on the implementation of this subsection to*  
 24 *the Committees on Interior and Insular Affairs of the Senate*  
 25

1 *and the House of Representatives beginning not later than*  
 2 *six months after the date of the enactment of this Act and*  
 3 *shall, not later than one year after the transfer of jurisdiction*  
 4 *of the reserve, and annually thereafter report any findings or*  
 5 *conclusions developed as a result of such study together with*  
 6 *appropriate supporting data and such recommendations as*  
 7 *he deems desirable. The study shall be completed and sub-*  
 8 *mitted to such committees, together with recommended pro-*  
 9 *cedures and any proposed legislation necessary to implement*  
 10 *such procedures not later than January 1, 1980.*

11            *(c) (1) The Secretary of the Interior shall establish a*  
 12 *task force to conduct a study to determine the values of, and*  
 13 *best uses for, the lands contained in the reserve, ~~and for the~~*  
 14 *~~lands adjacent to and near the reserve,~~ taking into considera-*  
 15 *tion (i) the natives who live or depend upon such lands, (ii)*  
 16 *the scenic, historical, recreational, fish and wildlife, and*  
 17 *wilderness values, (iii) mineral potential, and (iv) other*  
 18 *values of such lands.*

19            *(2) Such task force shall be composed of representatives*  
 20 *from the government of Alaska, the Arctic slope native com-*  
 21 *munity, and such offices and bureaus of the Department of*  
 22 *the Interior as the Secretary of the Interior deems appropri-*  
 23 *ate, including, but not limited to, the Bureau of Land Man-*  
 24 *agement, the United States Fish and Wildlife Service, the*  
 25 *United States Geological Survey, and the Bureau of Mines.*

1       (3) *The Secretary of the Interior shall submit a report,*  
 2 *together with the concurring or dissenting views of any non-*  
 3 *Federal representative of the task force, of the results of such*  
 4 *study to the Committees on Interior and Insular Affairs of*  
 5 *the Senate and the House of Representatives within three*  
 6 *years after the date of enactment of this title and shall include*  
 7 *in such report his recommendations with respect to the value,*  
 8 *best use, and appropriate designation of the lands referred*  
 9 *to in paragraph (1).*

10                                   ANTITRUST PROVISIONS

11       **SEC. 106. Pursuant to the provisions of section 105(b)**  
 12 **(2), if the Congress enacts legislation authorizing develop-**  
 13 **ment leading to production in the reserve, then:**

14       **(a) At each stage in the formulation and promulga-**  
 15 **tion of any terms and conditions, plans of development**  
 16 **or amendment thereto, and rules and regulations, and at**  
 17 **each stage in the entering and making of contracts and**  
 18 **operating agreements relating to the development, produc-**  
 19 **tion, or sale or exchange of petroleum in or from the**  
 20 **reserve, the Secretary of the Interior shall consult with**  
 21 **and give due consideration to the views and advice of the**  
 22 **Attorney General of the United States.**

23       **(b) All plans, reports, and proposals submitted to the**  
 24 **Congress by the Secretary of the Interior under this title**  
 25 **or pursuant to legislation authorizing development lead-**

1 **ing to production shall contain a report by the Attorney**  
 2 **General of the United States on the anticipated effects**  
 3 **upon competition of such plans, reports, and proposals.**

4       **(c) No contract or operating agreement may be made**  
 5 **or issued relating to the development, production, or sale**  
 6 **or exchange of petroleum in or from the reserve until at**  
 7 **least thirty days after the Secretary of the Interior noti-**  
 8 **fies the Attorney General of the proposed contract or**  
 9 **operating agreement. Such notification shall contain such**  
 10 **information as the Attorney General may require in order**  
 11 **to advise the Secretary of the Interior as to whether such**  
 12 **contract or operating agreement would create or maintain**  
 13 **a situation inconsistent with the antitrust laws. If, within**  
 14 **thirty days, the Attorney General advises the Secretary of**  
 15 **the Interior that a contract or operating agreement would**  
 16 **create or maintain such a situation, the Secretary of the**  
 17 **Interior may not make or issue that contract or operating**  
 18 **agreement unless he thereafter conducts a public hearing**  
 19 **on the record in accordance with the Administrative Pro-**  
 20 **cedure Act and finds therein that such contract or oper-**  
 21 **ating agreement is necessary to effectuate the purposes**  
 22 **of this title and any legislation authorizing development**  
 23 **leading to production, that it is consistent with the public**  
 24 **interest, and that there are no reasonable alternatives**  
 25 **consistent with this title and any legislation authorizing**

1 development leading to production, the antitrust laws, and  
2 the public interest.

3 (d) Nothing in this title or any legislation authorizing  
4 development leading to production shall be deemed to  
5 convey to any person, association, corporation, joint ven-  
6 ture, or other business organization immunity from civil  
7 or criminal liability, or to create defenses to actions, under  
8 the antitrust laws.

9 (e) As used in this section, the term "antitrust laws"  
10 means—

11 (1) the Act entitled "An Act to protect trade and  
12 commerce against unlawful restraints and monop-  
13 olies", approved July 2, 1890 (15 U.S.C. 1 et seq.), as  
14 amended;

15 (2) the Act entitled "An Act to supplement ex-  
16 isting laws against unlawful restraints and monop-  
17 lies, and for other purposes", approved October 15,  
18 1914 (15 U.S.C. 12 et seq.), as amended;

19 (3) the Federal Trade Commission Act (15 U.S.C.  
20 41 et seq.), as amended;

21 (4) sections 73 and 74 of the Act entitled "An Act  
22 to reduce taxation, to provide revenue for the Gov-  
23 ernment, and for other purposes", approved August 27,  
24 1894 (15 U.S.C. 8 and 9), as amended; or

1 (5) the Act of June 19, 1936, chapter 592 (15 U.S.C.  
2 13, 13a, 13b, and 21a).

3 AUTHORIZATION FOR APPROPRIATIONS

4 SEC. 107. (a) There are authorized to be appropriated  
5 to the Department of the Interior such sums as may be neces-  
6 sary to carry out the provisions of this title.

7 (b) If the Secretary of the Interior determines that there  
8 is an immediate and substantial increase in the need for  
9 municipal services and facilities in communities located on  
10 or near the reserve as a direct result of the exploration and  
11 study activities authorized by this title and that an unfair  
12 and excessive financial burden will be incurred by such com-  
13 munities as a result of the increased need for such services  
14 and facilities, then he is authorized to assist such communities  
15 in meeting the cost of providing increased municipal services  
16 and facilities. The Secretary of the Interior shall carry out  
17 the provisions of this section through existing Federal pro-  
18 grams and he shall consult with the heads of the departments  
19 or agencies of the Federal Government concerned with the  
20 type of services and facilities for which financial assistance is  
21 being made available.

22 TITLE II—NAVAL PETROLEUM RESERVES

23 SEC. 201. Chapter 641 of title 10, United States Code,  
24 is amended as follows:

1 (1) Immediately before section 7421 insert the following  
2 new section:

3 “§ 7420. Definitions

4 “(a) In this chapter—

5 “(1) ‘national defense’ includes the needs of, and  
6 the planning and preparedness to meet, essential defense,  
7 industrial, and military emergency energy requirements  
8 relative to the national safety, welfare, and economy, par-  
9 ticularly resulting from foreign military or economic  
10 actions;

11 “(2) ‘naval petroleum reserves’ means the naval  
12 petroleum and oil shale reserves established by this  
13 chapter, including Naval Petroleum Reserve Numbered 1  
14 (Elk Hills), located in Kern County, California, estab-  
15 lished by Executive order of the President, dated Sep-  
16 tember 2, 1912; Naval Petroleum Reserve Numbered 2  
17 (Buena Vista), located in Kern County, California,  
18 established by Executive order of the President, dated  
19 December 13, 1912; Naval Petroleum Reserve Num-  
20 bered 3 (Teapot Dome), located in Wyoming, estab-  
21 lished by Executive order of the President, dated April  
22 30, 1915; Naval Petroleum Reserve Numbered 4,  
23 Alaska, established by Executive order of the President,  
24 dated February 27, 1923 (until redesignated as the  
25 National Petroleum Reserve in Alaska under the juris-

1 diction of the Secretary of the Interior as provided in  
2 the Naval Petroleum Reserves Production Act of 1976);  
3 Oil Shale Reserve Numbered 1, located in Colorado,  
4 established by Executive order of the President, dated  
5 December 6, 1916, as amended by Executive order dated  
6 June 12, 1919; Oil Shale Reserve Numbered 2, located  
7 in Utah, established by Executive order of the President,  
8 dated December 6, 1916; and Oil Shale Reserve Num-  
9 bered 3, located in Colorado, established by Executive  
10 order of the President, dated September 27, 1924;

11 “(3) ‘petroleum’ includes crude oil, gases, (includ-  
12 ing natural gas) natural gasoline, and other related  
13 hydrocarbons, oil shale, and the products of any of such  
14 resources;

15 “(4) ‘Secretary’ means the Secretary of the Navy

16 “(5) ‘small refiner’ means an owner of a refinery or  
17 refineries (including refineries not in operation) who  
18 qualifies as a small business refiner under the rules and  
19 regulations of the Small Business Administration; and

20 “(6) ‘maximum efficient rate’ means the maximum  
21 sustainable daily oil or gas rate from a reservoir which  
22 will permit economic development and depletion of that  
23 reservoir without detriment to the ultimate recovery.”.

24 (2) Section 7421(a) is amended—

25 (A) by striking out “of the Navy”;

1 (B) by striking out "and oil shale";

2 (C) by striking out "for naval purposes" and in-  
3 serting in lieu thereof "for national defense purposes";  
4 and

5 (D) by striking out "section 7438 hereof" and in-  
6 serting in lieu thereof "this chapter".

7 (3) The text of section 7422 is amended to read as  
8 follows:

9 "(a) The Secretary, directly or by contract, lease, or  
10 otherwise, shall explore, prospect, conserve, develop, use, and  
11 operate the naval petroleum reserves in his discretion, subject  
12 to the provisions of subsection (c) and the other provisions of  
13 this chapter: Provided, That no petroleum leases shall be  
14 granted at Naval Petroleum Reserves Numbered 1 and 3.

15 "(b) Except as otherwise provided in this chapter and  
16 particularly subsection (c) of this section, the naval petroleum  
17 reserves shall be used and operated for—

18 "(1) the protection, conservation, maintenance, and  
19 testing of those reserves; or

20 "(2) the production of petroleum whenever and to  
21 the extent that the Secretary, with the approval of the  
22 President, finds that such production is needed for  
23 national defense purposes and the production is author-  
24 ized by a joint resolution of Congress.

25 "(c) (1) In administering Naval Petroleum Reserves

1 Numbered 1, 2, and 3, the Secretary is authorized and  
2 directed—

3 "(A) to further explore, develop, and operate such  
4 reserves;

5 "(B) commencing within ninety days after the date  
6 of enactment of the Naval Petroleum Reserves Produc-  
7 tion Act of 1976, to produce such reserves at the maxi-  
8 mum efficient rate consistent with sound engineering  
9 practices for a period not to exceed six years after the  
10 date of enactment of such Act;

11 "(C) during such production period or any exten-  
12 sion thereof to sell or otherwise dispose of the United  
13 States share of such petroleum produced from such  
14 reserves as hereinafter provided; and

15 "(D) to construct, acquire, or contract for the use  
16 of storage and shipping facilities on and off the reserves  
17 and pipelines and associated facilities on and off the  
18 reserves for transporting petroleum from such reserves to  
19 the points where the production from such reserves will  
20 be refined or shipped. Any pipeline in the vicinity of a  
21 naval petroleum reserve not otherwise operated as a com-  
22 mon carrier may be acquired by the Secretary by con-  
23 demnation, if necessary, if the owner thereof refuses to  
24 accept, convey and transport without discrimination and

1 at reasonable rates any petroleum produced at such  
 2 reserve. With the approval of the Secretary, rights-of-  
 3 way for new pipelines and associated facilities may be  
 4 acquired by the exercise of the right of eminent domain  
 5 in the appropriate United States district court. Such  
 6 rights-of-way may be acquired in the manner set forth in  
 7 section 258(a) of title 40, United States Code, and the  
 8 prospective holder of the right-of-way is 'the authority  
 9 empowered by law to acquire the lands' within the mean-  
 10 ing of that section. Such new pipelines shall accept, con-  
 11 vey, and transport without discrimination and at reason-  
 12 able rates any petroleum produced at such reserves as a  
 13 common carrier. Pipelines and associated facilities con-  
 14 structed at or procured for Naval Petroleum Reserve  
 15 Numbered 1 pursuant to this subsection shall have ade-  
 16 quate capacity to accommodate not less than three hun-  
 17 dred and fifty thousand barrels of oil per day and shall  
 18 be fully operable as soon as possible, but not later than  
 19 three years after the date of enactment of the Naval Petro-  
 20 leum Reserves Production Act of 1976.

21 "(2) At the conclusion of the six-year production period  
 22 authorized by paragraph (1)(B) of this section the President  
 23 may extend the period of production in the case of any naval  
 24 petroleum reserve for additional periods of not to exceed three  
 25 years each—

1 "(A) after the President requires an investigation  
 2 to be made to determine the necessity for continued pro-  
 3 duction from such naval petroleum reserve;

4 "(B) after the President submits to the Congress, at  
 5 least one hundred and eighty days prior to the expiration  
 6 of the current production period prescribed by this sec-  
 7 tion, a copy of the report made to him on such investiga-  
 8 tion together with a certification by him that continued  
 9 production from such naval petroleum reserve is in the  
 10 national interest; and

11 "(C) if neither House of Congress within ninety  
 12 days after receipt of such report and certification adopts  
 13 a resolution disapproving further production from such  
 14 naval petroleum reserve.

15 "(3) The production authorization set forth in para-  
 16 graph (1)(B) of this subsection, in the case of Naval Petro-  
 17 leum Reserve Numbered 1, is conditioned upon the private  
 18 owner of any lands or interests therein within such reserve  
 19 agreeing with the Secretary to continue operations of such  
 20 reserve under a unitized plan contract which adequately pro-  
 21 tects the public interest; however, if such agreement is not  
 22 reached within ninety days after the date of enactment of the  
 23 Naval Petroleum Reserves Production Act of 1976 the Sec-  
 24 retary is authorized to exercise the authority for condemna-  
 25 tion conferred by section 7425 of this chapter."

1       (4) *The first sentence of section 7423 is amended by de-*  
2 *leting "of the Navy" and "or products".*

3       (5) *Section 7424 is amended—*

4           (A) *by deleting "of the Navy" in the text of subsec-*  
5 *tion (a) preceding clause (1);*

6           (B) *by deleting "and oil shale" in subsection (a)*  
7 *(1) in the text preceding subclause (A); and*

8           (C) *by deleting "in the ground" in clause (1)(A)*  
9 *of subsection (a).*

10       (6) *Section 7425 is amended by deleting "of the Navy".*

11       (7) *Section 7426(a) is amended by striking out "the*  
12 *Secretary of the Navy" and inserting in lieu thereof "Subject*  
13 *to the provisions of section 7422(c), the Secretary".*

14       (8) *The first and second sentences of section 7427 are*  
15 *amended by striking out "of the Navy".*

16       (9) *Section 7428 is amended by striking out "within the*  
17 *naval petroleum and oil shale reserves shall contain a provi-*  
18 *sion authorizing the Secretary of the Navy" and inserting in*  
19 *lieu thereof "within Naval Petroleum Reserve Numbered 2*  
20 *and the oil shale reserves shall contain a provision authoriz-*  
21 *ing the Secretary".*

22       (10) *The first sentence of section 7429 is amended by*  
23 *deleting "of the Navy".*

24       (11) *The text of section 7430 is amended to read as*  
25 *follows:*

1       “(a) *In administering the naval petroleum reserves*  
2 *under this chapter, the Secretary shall use, store, or sell*  
3 *the petroleum produced from the naval petroleum reserves*  
4 *and lands covered by joint, unit, or other cooperative plans.*

5       “(b) *Notwithstanding any other provision of law, each*  
6 *sale or exchange of the United States share of petroleum*  
7 *shall be made by the Secretary at public sale to the highest*  
8 *qualified bidder, for periods of not more than one year, at*  
9 *such time, in such amounts, and after such advertising as*  
10 *the Secretary considers proper and without regard to Fed-*  
11 *eral, State, or local regulations controlling sales or allocation*  
12 *of petroleum products.*

13       “(c) *In no event shall the Secretary permit the award*  
14 *of any contract which would result in any person obtaining*  
15 *control, directly or indirectly, over more than 20 per centum*  
16 *of the estimated annual United States share of petroleum*  
17 *produced from Naval Petroleum Reserve Numbered 1.*

18       “(d) *Each proposal for sale under this title shall provide*  
19 *that the terms of every sale or exchange of the United States*  
20 *share of petroleum from the naval petroleum reserves shall be*  
21 *so structured as to give full and equal opportunity for the*  
22 *acquisition of petroleum by all interested companies, including*  
23 *major and independent oil producers and refiners alike. When*  
24 *the Secretary, in consultation with the Secretary of the In-*  
25 *terior, determines that the public interests will be served by the*

1 sale of petroleum to small refiners not having their own ade-  
 2 quate sources of supply of petroleum, the Secretary is author-  
 3 ized and directed to set aside a portion of the United States  
 4 share of petroleum produced for sale to such refiners under  
 5 the provisions of this section for processing or use in such  
 6 refineries except that—

7 “(1) none of the production sold to small refiners  
 8 may be resold in kind;

9 “(2) production must be sold at the maximum price  
 10 permitted by law, or if no law so provides, at a cost of  
 11 not less than the prevailing local market price of com-  
 12 parable petroleum;

13 “(3) set-aside portion may not exceed ~~20~~ 25 per  
 14 centum of the estimated annual United States share of the  
 15 total production from all producing naval petroleum re-  
 16 serves; and

17 “(4) notwithstanding the provisions of subsection  
 18 (b) of this section, the Secretary may, at his discretion if  
 19 he deems it to be in the public interest, prorate such  
 20 petroleum among such refiners for sale, without competi-  
 21 tion, at the maximum price permitted by law, or if no  
 22 law so provides, at not less than the prevailing local mar-  
 23 ket price of comparable petroleum.

24 “(e) Any petroleum produced from the naval petroleum

1 reserves, except such petroleum which is either exchanged in  
 2 similar quantities for convenience or increased efficiency of  
 3 transportation with persons or the government of an adjacent  
 4 foreign state, or which is temporarily exported for conven-  
 5 ience or increased efficiency of transportation across parts of  
 6 an adjacent foreign state and reenters the United States,  
 7 shall be subject to all of the limitations and licensing require-  
 8 ments of the Export Administration Act of 1969 (Act of  
 9 December 30, 1969; 83 Stat. 84) and, in addition, before  
 10 any petroleum subject to this section may be exported under  
 11 the limitations and licensing requirement and penalty and  
 12 enforcement provisions of the Export Administration Act of  
 13 1969, the President must make and publish an express find-  
 14 ing that such exports will not diminish the total quality or  
 15 quantity of petroleum available to the United States and that  
 16 such exports are in the national interest and are in accord  
 17 with the Export Administration Act of 1969.

18 “(f) During the period of production or any extension  
 19 thereof authorized by section 7422(c), the consultation and  
 20 approval requirements of section 7431(a)(3) are waived.

21 **“(g)(1) At each stage in the formulation and promul-**  
 22 **gation of any terms and conditions, plans of development**  
 23 **or amendment thereto, and rules and regulations, and at**  
 24 **each stage in the entering and making of contracts and**

1 operating agreement under this chapter the Secretary  
2 shall consult with and give due consideration to the views  
3 and advice of the Attorney General of the United States.

4       “(2) No contract or operating agreement may be made  
5 or issued under this chapter until at least thirty days after  
6 the Secretary notifies the Attorney General of the pro-  
7 posed contract or operating agreement. Such notification  
8 shall contain such information as the Attorney General  
9 may require in order to advise the Secretary as to whether  
10 such contract or operating agreement would create or  
11 maintain a situation inconsistent with the antitrust laws.  
12 If, within thirty days, the Attorney General advises the  
13 Secretary that a contract or operating agreement would  
14 create or maintain such a situation, the Secretary may  
15 not make or issue that contract or operating agreement  
16 unless he thereafter conducts a public hearing on the  
17 record in accordance with the Administrative Procedure  
18 Act and finds therein that such contract or operating  
19 agreement is necessary to effectuate the purposes of this  
20 chapter, that it is consistent with the public interest, and  
21 that there are no reasonable alternatives consistent with  
22 this chapter the antitrust laws, and the public interest.

23       [“(g) The Secretary is authorized to execute contracts  
24 for the sale of the United States share of petroleum, but  
25 no such contract or operating agreement may be executed

1 until at least thirty days after the Secretary has provided  
2 the Attorney General with a copy of the proposed contract  
3 or operating agreement and such other information as may  
4 be appropriate to determine possible violations under, or  
5 inconsistencies with, the antitrust laws. If the Attorney Gen-  
6 eral advises the Secretary that a contract or operating agree-  
7 ment would unduly restrict competition or be inconsistent  
8 with the antitrust laws, then the Secretary may not execute  
9 that contract or operating agreement.]

10       “(h) Nothing in this chapter shall be deemed to confer  
11 on any person immunity from civil or criminal liability, or  
12 to create defenses to actions, under the antitrust laws.

13       “(i) As used in this section, the term ‘antitrust laws’  
14 means—

15               “(1) the Act entitled ‘An Act to protect trade and  
16 commerce against unlawful restraints and monopolies’,  
17 approved July 2, 1890 (15 U.S.C. 1 et seq.), as  
18 amended;

19               “(2) the Act entitled ‘An Act to supplement existing  
20 laws against unlawful restraints and monopolies, and  
21 for other purposes’, approved October 15, 1914 (15  
22 U.S.C. 12 et seq.), as amended;

23               “(3) the Federal Trade Commission Act (15  
24 U.S.C. 41 et seq.), as amended;

25               “(4) sections 73 and 74 of the Act entitled ‘An Act

1 to reduce taxation, to provide revenue for the Govern-  
 2 ment, and for other purposes', approved August 27,  
 3 1894 (15 U.S.C. 8 and 9), as amended; or

4 "(5) the Act of June 19, 1936, chapter 592 (15  
 5 U.S.C. 13, 13a, 13b, and 21a).

6 "(j) (1) Any pipeline which accepts, conveys, or trans-  
 7 ports any petroleum produced from Naval Petroleum Re-  
 8 serves Numbered 1 and Numbered 3 shall accept, convey, and  
 9 transport without discrimination and at reasonable rates any  
 10 such petroleum as a common carrier. Every contract for the  
 11 sale of any petroleum owned by the United States which is  
 12 produced from such reserves shall, before being executed by  
 13 the Secretary, contain provisions implementing the require-  
 14 ments of the preceding sentence if the contractor owns a con-  
 15 trolling interest in any pipeline or any company operating  
 16 any pipeline, or is the operator of any pipeline, which carries  
 17 any petroleum produced from such naval petroleum reserves.  
 18 The Secretary may promulgate rules and regulations for the  
 19 purpose of carrying out the provisions of this section and he,  
 20 or the Secretary of the Interior where the authority extends  
 21 to him, may declare forfeit any contract, operating agreement,  
 22 right-of-way, permit, or easement held by any person violating  
 23 such rules and regulations. This section shall not apply to any  
 24 natural gas common carrier pipeline operated by any person  
 25 subject to regulation under the Natural Gas Act or any pub-

1 lic utility subject to regulation by a State or municipal regu-  
 2 latory agency having jurisdiction to regulate the rates and  
 3 charges for the sale of natural gas to consumers within the  
 4 State or municipality.

5 "(2) Nothing in this chapter shall be deemed to repeal,  
 6 in whole or in part, section 28(r) of the Mineral Lands Leas-  
 7 ing Act of February 25, 1920, as amended (30 U.S.C. 185  
 8 (r)), nor to limit or change the status under the provisions  
 9 of section 28 of such Act (30 U.S.C. 185) of any pipeline  
 10 heretofore constructed on public lands.

11 "(k) The President may, at his discretion, direct that  
 12 all or any part of the United States share of petroleum  
 13 produced from the naval petroleum reserves be placed in  
 14 strategic storage facilities as authorized by Public Law 94-  
 15 163 or that all or any part of such share be exchanged for  
 16 petroleum products of equal value for the purpose of placing  
 17 such products in such strategic storage facilities."

18 (12) Section 7431 is amended—

19 (A) by inserting "(a)" immediately before "The  
 20 Committees";

21 (B) by striking out "or oil shale" in clauses (1)  
 22 and (2);

23 (C) by striking out "and oil shale" in clauses (2)  
 24 and (3);

25 (D) by striking out "oil and gas (other than royalty

1 oil and gas), oil shale, and products therefrom" in clause  
2 (3) and inserting in lieu thereof "petroleum (other than  
3 royalty oil and gas)"; and

4 (E) by adding at the end thereof the following  
5 new subsection:

6 "(b) (1) During the period of production authorized by  
7 section 7422(c), the Secretary shall submit to the Committees  
8 on Armed Services of the Senate and the House of Repre-  
9 sentatives any new plans or substantial amendments to on-  
10 going plans for the exploration, development, and production  
11 of the naval petroleum reserves.

12 "(2) All plans submitted to the Congress pursuant to  
13 this section shall contain a report by the Attorney General of  
14 the United States with respect to the anticipated effects of  
15 such plans on competition. Such plans or amendments shall  
16 not be implemented until sixty days after such plans have been  
17 submitted to such committees.

18 "(c) During the period of production authorized by sec-  
19 tion 7422(c), the Secretary shall submit annual reports as of  
20 the first day of the fiscal year to the Committees on Armed  
21 Services of the Senate and the House of Representatives, and  
22 such committees shall cause such reports to be printed as a  
23 Senate or House document, as appropriate. The Secretary  
24 shall include in such reports, with respect to each naval  
25 petroleum reserve, an explanation in detail of the following:

1 "(1) the status of the exploration, development, and  
2 production programs;

3 "(2) the production that has been achieved, includ-  
4 ing the disposition of such production and the proceeds  
5 realized therefrom;

6 "(3) the status of pipeline construction and procure-  
7 ment and problems related to the availability of trans-  
8 portation facilities;

9 "(4) a summary of future plans for exploration,  
10 development, production, disposal, and transportation of  
11 the production from the naval petroleum reserves; and

12 "(5) such other information regarding the reserve as  
13 the Secretary deems appropriate."

14 (13) Section 7432 is amended to read as follows:

15 "§ 7432. **Naval petroleum reserves special account**

16 "(a) There is hereby established on the books of the  
17 Treasury Department a special account designated as the  
18 'naval petroleum reserves special account'. There shall be  
19 credited to such account—

20 "(1) all proceeds realized under this chapter from  
21 the disposition of the United States share of petroleum;

22 "(2) the net proceeds, if any, realized from sales or  
23 exchanges within the Department of Defense of refined  
24 petroleum products accruing to the benefit of any com-

1     ponent of that department as the result of any such sales  
2     or exchanges;

3     “(3) such additional sums as have been, or may be  
4     appropriated for the maintenance, operation, explora-  
5     tion, development, and production of the naval petroleum  
6     reserves;

7     “(4) such royalties as may accrue under the provi-  
8     sions of section 7433; and

9     “(5) any other revenues resulting from the opera-  
10    tion of the naval petroleum reserves.

11    “(b) Funds available in the naval petroleum reserve spe-  
12    cial account shall be available for expenditure in such sums as  
13    are specified in annual appropriations Acts for the expenses  
14    of—

15    “(1) exploration, prospecting, conservation, develop-  
16    ment, use, operation, and production of the naval petro-  
17    leum reserves as authorized by this chapter;

18    “(2) production (including preparation for produc-  
19    tion) as authorized by this chapter, or as may hereafter  
20    be authorized;

21    “(3) the construction and operation of facilities both  
22    within and outside the naval petroleum reserves incident  
23    to the production and the delivery of crude petroleum and  
24    derivatives, including pipelines and shipping terminals;

25    “(4) the procurement of petroleum for, and the con-

1     struction and operation of facilities associated with, the  
2     National Strategic Petroleum Reserve authorized by  
3     Public Law 94-163; and

4     “(5) the exploration and study of the National Pe-  
5     troleum Reserve in Alaska as authorized in title I of the  
6     Naval Petroleum Reserves Production Act of 1976.

7     “(c) the budget estimates for annual appropriations from  
8     the <sup>α</sup>navy petroleum reserves special account shall be prepared  
9     by the Secretary and shall be presented to the Congress by  
10    the President independently of the budget of the Department  
11    of the Navy and the Department of Defense.

12    “(d) Contracts under this chapter providing for the ob-  
13    ligation of funds may be entered into by the Secretary for a  
14    period of five years, renewable, at the option of the Secretary,  
15    for an additional five-year period; however, such contracts  
16    may obligate funds only to the extent that such funds are  
17    made available in annual appropriations.”.

18    (14) Section 7433(a) is amended by striking out “of  
19    the Navy”.

20    (15) Section 7433(b) is amended by striking out “and  
21    oil shale”.

22    (16) Section 7434 is amended by striking out “and oil  
23    shale”.

24    (17) Section 7435(b) is amended by striking out “of the  
25    Navy”.

1       (18) Section 7436 is amended by deleting “of the Navy,  
2 subject to approval of the President,”.

3       (19) Section 7438 is amended by striking out “Secretary  
4 of the Interior” wherever it occurs and inserting therefor  
5 “Administrator of the Energy Research and Development  
6 Administration”; and by striking out “of the Navy”.

7       (20) The table of sections at the beginning of such chap-  
8 ter is amended—

9           (A) by inserting immediately before

“7421. Jurisdiction and control.”

10       the following;

“7420. Definitions.”; and

11           (B) by striking out

“7432. Expenditures; appropriations chargeable.”

12       and inserting in lieu thereof the following:

“7432. Naval petroleum reserve special account.”.

Amend the title so as to read: “An act to establish a National Petroleum Reserve in Alaska under the jurisdiction of the Secretary of the Interior, to direct the production of petroleum from the Naval Petroleum Reserves, and for other purposes.”.

[CONFERENCE PRINT NO. 2]

MARCH 1, 1976

94TH CONGRESS  
2D SESSION

**H. R. 49**

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**AN ACT**

To authorize the Secretary of the Interior to establish on certain public lands of the United States national petroleum reserves the development of which needs to be regulated in a manner consistent with the total energy needs of the Nation, and for other purposes.

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JULY 9 (legislative day, JULY 7), 1975

Received

JULY 29, 1975

Considered, amended, read the third time, and passed

MARCH , 1976

Reported with an amendment to the title