

# *The* **TEXACO STAR**



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UNIVERSITY OF HOUSTON

**MARCH-APRIL 1933**

## Nacogdoches

**B**OTH MEN had heard of petroleum, the black gold that had made Pennsylvania a land of promise for seven years. They, and many others, knew there was petroleum in Texas, but Texas, in 1866, was a long way from any large market, and there was no demand for the oil.

It was with no particular thrill of discovery, therefore, that Emory Starr and Peyton F. Edwards examined the holes they had dug the night before on a branch of Oil Springs, near Nacogdoches. The two, on a hunting expedition, had expected the shallow pits, hastily dug with a pot lid, to fill with clear water for preparing their breakfast coffee. Instead, the surface was covered with an ill-smelling iridescent scum.

Edwards had an idea.

"Suppose we skim some of this off and take it to the harness shop in town?" he suggested. "I hear it's good for leather."

Such was the rather inauspicious birth of the oil industry in Texas. The initiative of Starr and Edwards caused some excitement for a while, but actual oil development did not take place for several years.

Probably the first deliberate attempt to drill for oil in Texas was by a Pennsylvania wildcatter who sank a hole near the border of Jefferson and Hardin Counties nearly a year before the Civil War. He apparently struck a "gasser," went back North just before the war began, and never returned.

The "oil pond" near Sabine Pass was known to be a petroleum seepage before 1870, but skippers of Gulf coastal sloops who fled to its calm waters when storms blew up were the only ones to make use of it.

Several years before the Pennsylvania oil boom, Dr. George G. Shumard, geologist and surgeon of several military expeditions that surveyed parts of Texas, noted the presence of petroleum and predicted its use for illumination and as a fuel.

Dr. Shumard, therefore, is probably the real "discoverer" of petroleum in Texas and the first to note the presence of oil there.

In two decades after 1866, the excitement in Nacogdoches grew to boom proportions, but by that time petroleum production had begun in other parts of the state.



THE COVER ILLUSTRATION ON THIS ISSUE OF THE TEXACO STAR, SHOWING ONE OF THE EARLIEST RECORDED INSTANCES OF ACTUAL OIL RECOVERY IN THE STATE OF TEXAS, IS THE SIXTEENTH OF A SERIES OF ORIGINAL PAINTINGS DRAMATIZING OUTSTANDING INCIDENTS IN THE DEVELOPMENT OF THE AMERICAN PETROLEUM INDUSTRY. TODAY APPROXIMATELY FORTY PER CENT OF THE TOTAL CRUDE PRODUCTION OF THE UNITED STATES COMES FROM TEXAS



# The TEXACO STAR



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MARCH-APRIL, 1933

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as are shown to have been separately copyrighted by others) provided due credit is given to The Texaco Star or The Texas Co.

## BRIEF

★ This issue of THE TEXACO STAR was especially prepared to give our stockholders and employes a clear picture of the current situation of the oil industry and the recent events which have brought about that situation. It is recommended that the articles herein be carefully perused in order that there may be a better understanding of the industry's problems.

## AND

★ "Evasion of the [gasoline] tax," says the Federal Oil Conservation Board in its Fifth Report to the President of the United States, "is a serious problem, not only to the governments of the states in which the tax is evaded, but to honest dealers who pay the tax. Evasion is a widespread practice and the losses to the states, and consequent damage to honest dealers, have reached alarming proportions."

## TO

★ From the *Dallas News*: "It is probable that oil regulation cannot be considered by the Government in the same light with banking, yet it is a problem on the same plane with wheat, cotton, and the farm products. Oil aid is as necessary as farm aid."—Except that oil is only asking for a fair administration and enforcement of the laws, and not financial aid.

## THE

★ From the *Beaumont Enterprise*: "The folly of pouring unneeded oil into glutted markets is only matched by the inexcusable waste of a valuable natural resource which can never be replaced, once it is exhausted. . . . The nation's economic welfare, its safety in war, and the protection of the nation's great oil industry demand that the waste of oil and natural gas be stopped."

## POINT

★ From the *Houston Press*: "Shall physical waste be stopped by some state method of regulation, or shall the oil wells be turned loose to end man's folly? Will it be the survival of the fittest and biggest, or shall it be protection for all?"



★ Refined petroleum products are fifth in total value among the manufactured goods of the United States.

UNIVERSITY OF HOUSTON

# EDITORIAL

## The Impotent Tariff

On June 6, 1932, the Revenue Act was enacted which provided for an import tariff of one-half cent per gallon for crude oil, gas oil, fuel oil, and other liquid derivatives of crude petroleum; an import tariff of four cents per gallon on lubricating oil, and of two and one-half cents per gallon on gasoline or other motor fuels.

At that time the average crude oil price in the United States was \$.8732, and gasoline at filling stations, exclusive of state taxes, \$.1379.

On March 1, 1933, the average posted crude oil price was \$.5691, and the average filling station price for gasoline, exclusive of state tax, \$.1125.

Illegally produced crude oils in large quantities are being sold in East Texas at this writing (April 4) at from \$.10 to \$.20 per barrel, and have driven prices of refined markets down to a point that could not have been accomplished by importations.

Also, these crudes and products of same are competing with foreign crudes in the markets of Canada, Europe and elsewhere with the same effect.

## Oil Could Aid Coal

True conservation of crude petroleum can be accomplished in several ways.

1. In the avoidance of the actual waste of crude oil and natural gas, preserving both for future use, and the gas as a source of energy in extracting oil

from the underground deposits. Figuring crude oil at \$1.00 a barrel, and gas at five cents per thousand cubic feet, the loss is now averaging \$91,250,000 per annum.

2. By other practices that will make possible the ultimate recovery of the largest possible percentage of the content of the deposits.

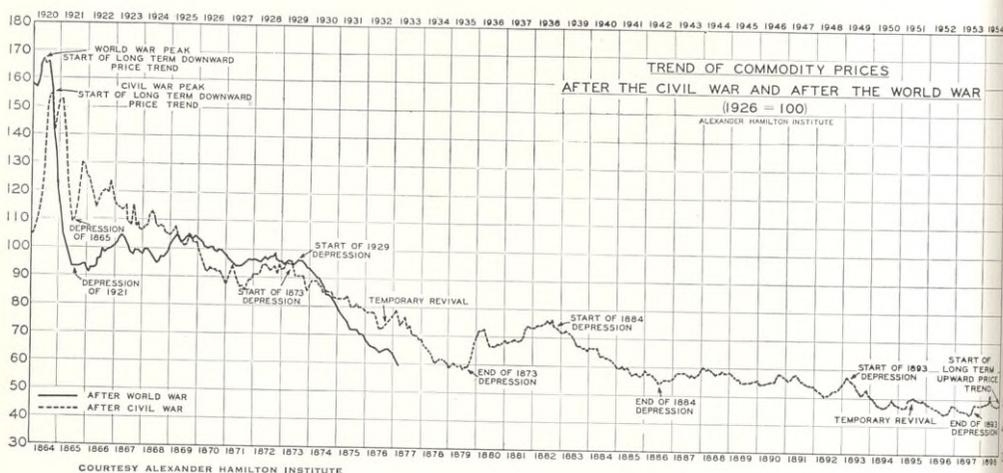
3. By the use only of such quantities of crude oil as are actually needed for the production, by the most efficient methods, of the essential products of petroleum, these being almost entirely confined to gasoline and lubricating oil and a limited quantity of kerosene.

The 1932 world yield, excluding Russia, of gasoline from crude refined was 42 per cent. If a yield of 50 per cent should be attained, fuel oil production would be reduced in an amount that would permit of the production of approximately 45,000,000 tons of additional coal per annum, increasing employment by a very large number.

## Commodity Prices

Those who believe commodity prices will be raised through activities other than restricted production and re-employment of the idle in industrial, rather than agricultural pursuits, should note commodity price trends following the Civil War.

Measuring the decline in commodity prices during the present depression by the Bureau of Labor Statistics price index (1926 = 100), the price



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level has dropped from 96.5 in 1929, when the depression started, to a low of 59.8 for the month of February, 1933; a fall of 36.7 points in the index, or 38 per cent.

This low-point compares with a low-point of 58.2 in 1879 in the depression of the '70's and an extreme low-point of 45.0 in 1897, which marked the culmination of the long term downward commodity price trend for 33 years following the Civil War. From this point it was 20 years, 1897-1917, before commodity prices reached the average of 1926, used above as 100.

It is interesting to note that the Civil War peak was 154.1 in 1864 while the World War peak was 167.2 in 1920, and that the price level at its low-point of 59.8 in February, 1933, has fallen 107.4 points, or 64.2 per cent from the World War peak, as against a fall of 109.1 points, or 70.8 per cent following the Civil War.

### Judgment Confirmed

The following editorial appeared in the January, 1931 issue of The Texaco Star, and is repeated.

The action of the Association of Railway Executives, in declaration of policy dated November 20, 1930, in recommending that burdens and restrictions be placed upon the oil industry and motor transportation, would seem to be ill advised, and particularly at this time when it is so important that there be coöperation in solving the many difficulties that confront all. Railroads are as much in need of intelligent and sympathetic consideration by shippers and consumers today as ever, and such support has been more and more in evidence, but it is much easier to lose than to secure and sustain.

It is to be regretted that there is in this country no organization or forum through which leaders of one major activity, whether industrial, transportation, banking, educational or other, can conveniently and advisedly consider the effect of their endeavors to secure reliefs or benefits when the results may be merely shifting of burdens or placing unnecessary and unwarranted difficulties in the way of others.

### The Banking Problem

It would be fortunate if, with the recent banking moratorium and such other activities as give some temporary relief and feeling of security, a reasonable time could be given for the banking interests, and other interests which are so dependent upon banking facilities and service, to make careful studies and determine what, under all

conditions, is the wisest course to pursue.

"The hard boiled, cold hearted bankers," who in the latter part of 1929 and in 1930 disregarded the conditions that influenced millions of people to invest and borrow beyond their means, and sold them out when they were under margined, are the "good bankers" of today. The bankers who in that period, and following, were liberal in their consideration and taking some risk in their efforts to protect the unfortunate and attempt to stay the liquidation until some general corrective measures could be applied, are the "bad, incompetent bankers" of today. Is there not a desirable middle course or policy?

There is undoubtedly ample talent in the banking organizations, if used in making the necessary studies, to arrive at some sound recommendation which all interests can support. Possibly they should not be too much on the defensive. The rapidly changing development of industry and transportation in many respects has created problems entirely out of the control of any bank or group of banks themselves. For an instance, automobiles may have made the small town bank unnecessary.

In the meantime, let us be temperate in our judgment.

According to National Industrial Conference Board figures, securities listed on the New York Stock Exchange, exclusive of the Curb Exchange on January 1, 1929, had a market value of approximately \$115,000,000,000, and on March 1, 1933, a value of about \$50,500,000,000—a decline of \$64,500,000,000, an amount over \$10,000,000,000 in excess of all bank deposits, including savings banks, at this time. Collateral loans on June 30, 1932, of all banks reporting to the Comptroller of the Currency, amounted to about \$6,000,000,000, exclusive of loans to banks. These same banks have investments in bonds and other securities of about \$3,385,000,000.

When this is realized, it would seem that definite, wholesome and understanding support of legitimate industry to raise market values at least to some reasonable percentage of intrinsic, or actual, values would give relief that no amount of inflation or money poured into rat-holes can ever accomplish. There has already been an over-extension of credit, with values as they are today. Further extension would seem warranted only on improvement of values.

### Stock Exchange Rules

The New York Stock Exchange, in requiring quarterly statements, particularly of corpora-

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tions doing a world wide business, and that accounts be audited by independent auditors, naturally raises the question as to whether these requirements are in themselves adequate protection to stockholders and investors.

Applying the quarterly statement requirement to world-wide activities, in the first place, is difficult, and, in the next place, has the effect of bringing out sharp variations in conditions, and the necessary temporary adjustments that are flattened out to a greater extent and on a more conservative and accurate basis in a 12 months report.

It would seem that the Exchange could provide much more protection, and more definite protection, if it were to require that any stock listed, or to be listed, on the Exchange, must conform to some specific and uniform rules and requirements of accounting practice for each class of business activity. This having been done, the requirement of audits by independent agencies would be of unquestionable value.

An example of audits made under other conditions is disclosed in the text of The Texas Corporation annual statement, reported in this issue of THE STAR, in which it is stated that on acquiring the California Petroleum Corporation, \$24,172,728.10 was charged off, and on acquiring the Indian Refining Company, \$6,813,232.81 was charged off, to bring the records of those two companies into accord with what we consider sound accounting policy and practice.

### Looking Forward

If you are lacking in confidence in our new President's understanding of the many problems that must be solved in staying this drastic liquidation and bringing about definite and wholesome improvement, read a book just published, *Looking Forward*, by Franklin D. Roosevelt. The cover sheet carries the following:

"We are about to enter upon a new period of liberalism and of sane reform in the United States, and we shall require unity of purpose, if not of opinion, if we are to achieve permanent and practical results. As President of the United States I shall do my utmost, in coöperation with the people and with their chosen representatives, to restore the balance of our economic interests and to simplify and vitalize our political institutions, so that as changes come they may be effected without injury to the proper rights of any individual and without

conflict with the spirit of American institutions.

—FRANKLIN D. ROOSEVELT"

Among other vital and timely topics, Mr. Roosevelt discusses in this volume:

Need for Economic Planning, Reorganization of Government, Expenditure and Taxation, Agriculture, The Power Issue, The Railroads, The Tariff, Judicial Reform, Crime and Criminals, Banking and Speculation, Holding Companies, and National and International Unity.

### Moonshine

Two billion, nine hundred million bushels of corn were produced in the United States in 1932 at a farm value of approximately 19 cents per bushel, or \$551,000,000.

Average production for the five years ending 1931 was 2,550,000,000 bushels. Average farm value was about 67 cents per bushel, or \$1,708,000,000.

Why not produce 2,550,000,000 bushels and make \$1,157,000,000 at no extra cost?

### Legislation

Legislators, national and state, are confronted with a great responsibility, possibly the most serious in the history of our country.

It can be assumed that they are all conscious of the responsibility of acting wisely.

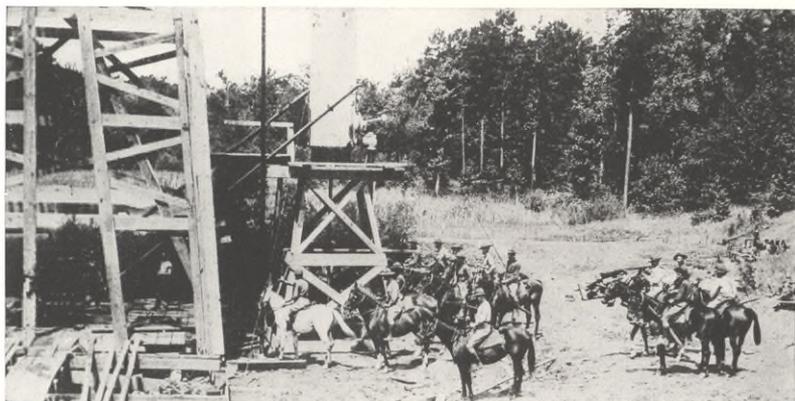
It cannot be conceived that they can all be fully informed on conditions and facts bearing on all of the legislation necessary or proposed, and it would certainly be most helpful if all, in attempting to aid, confine themselves to essential facts, as nearly as they can be ascertained.

While there are many sources available, and many creditable statistical organizations, there probably is no organization better qualified to serve generally in this regard than the National Industrial Conference Board, an impartial, unbiased, un-influenced, fact-finding institution.

### Sabotage

If the representatives of the Metropolitan-Vickers Electrical Company, Ltd., and others are found to be guilty of the activities charged, as stated recently in the press dispatches from Moscow, there can be no proper defense by anyone. It is merely a form of indefensible criminal racketeering.

★ Shaw the critic—Pshaw!



State troops on duty in the East Texas Field

KEYSTONE

## STOLEN OIL—65,000,000 BARRELS

**S**EVENTY-FIVE million barrels of crude oil were produced in excess of Conservation Commissions' allowables for the 15 months ended March 31, 1933.

Texas produced nearly 32,000,000 barrels of this in utter disregard of conservation laws and the Railroad Commission's orders. Injunctions granted by courts because conservation authorities issued orders in illegal form permitted 21,500,000 barrels to come out at the expense of the law-abiding.

In Oklahoma 11,230,000 barrels were illegally produced.

California produced 10,000,000 barrels which however is not classed as illegal oil. Rather, it is unfair oil, produced by a few operators in excess and out of proper regard for the allowables set by the voluntary curtailment committees fixing allow-

ables for the majority of the industry in California, in an effort to prorate their production to somewhere near the market requirement.

Activities of this kind are without possible defense. They can be prevented. We predict that they will be prevented, and that a stabilized and more creditable condition will exist.



(Above and left) How the producer "steals" his own crude—Secret pipe connections which investigators have unearthed

# STOLEN REVENUES

*Estimated To Exceed \$60,000,000 In  
Two Years*

**More Than Total Expenditures For All  
Highways In the United States In the  
Year 1903**



**A** FEDERAL tax on gasoline of one cent per gallon became effective June 21, 1932, adding approximately \$150,-

000,000 per annum to the motorist's burden.

The gasoline tax was born in the State of Oregon in 1919. In that year, \$1,022,514 was collected, and the revenue was devoted to the construction and maintenance of highways. Other states were quick to see in this tax a good source of income, with the result that in 1932, 48 states collected \$540,000,000.

But another group also saw in the gasoline tax a good chance to make money—dishonest gasoline merchants who, through one method or another, succeeded in evading the tax. As early as 1919, gasoline tax evasions are estimated to have amounted to \$22,495, or 2.2 per cent of the total revenue. Higher and higher tax rates and the spread of the tax to other states made evasion more and more profitable. Last year, at a very conservative estimate, gasoline tax evasions exceeded \$22,000,000.

Since 1930, although more than \$60,000,000 is estimated to have been evaded, only a little more than \$1,300,000 worth of actual cases of evasion have been brought to trial in the courts.

A side partner to tax evasion is tax diversion—the practice of diverting gasoline tax revenues to purposes other than the construction and maintenance of highways. As noted in the January-February issue of THE TEXACO STAR, 10 states in 1931 diverted more than \$17,400,000 of gasoline tax receipts to schools, prison construction, oyster propagation, state general funds, aviation, inland waterways, expenses of state revenue departments, emergency unemployment relief, and the distribu-



EWING GALLOWAY

tion of garden seed. Nearly \$13,000,000 in gasoline tax moneys was *directly* diverted by various states during the first six months of last year, but the unofficial or *indirect* diversion (again a conservative estimate) reached nearly \$200,000,000—almost one-third of the total state and Federal gasoline tax revenue. This diversion of course includes the total amount of the Federal gasoline tax, none of which was used on highways.

In spite of this, representations have repeatedly been made that the highway users are not paying their share of the cost of construction and maintenance of roads, and that they are not burdened with property taxes, etc. This \$200,000,000 diversion is about two-thirds as much as all railroad taxes.

Former Governor Sterling of Texas, in a message to the legislature in January, 1933, stated that gasoline tax evasion costs the State of Texas alone an estimated \$3,000,000 a year.

In an editorial in the *Houston (Texas) Chronicle* dated March 16, 1933, referring to the new Texas Gas Tax Law, it was said that the legislators in passing the act effective immediately as an emergency measure did so to halt a loss in state revenue of more than \$300,000 monthly, or about \$4,000,000 a year through tax evasion.

The *National Petroleum News* in April, 1932, reported that estimates of tax evasion in the Mississippi Valley ran as high as 10 per cent.

The *Montgomery (Alabama) Advertiser* in March,

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1932, stated that gasoline bootlegging had become a \$50,000,000 racket in the United States.

In Georgia, in 1932, one auditor whose services had been loaned to the state, discovered gasoline tax evasion of between \$75,000 and \$100,000 in four months.

Dr. Clyde King, Pennsylvania Revenue Collector, in September, 1932, said that the state treasury had lost millions of dollars in gasoline tax money before the present administration took office in 1931.

In California, in 1931, there was a gasoline tax delinquency of over \$5,000,000.

In an address delivered by Joseph L. McLaughlin, Director of Motor Fuels, New Jersey, on February 9, 1933, he said that the work of 10 men at a cost of about \$23,000 during the past 10 months had produced convictions in the New Jersey District Courts on gasoline tax evasion cases involving more than 150 indictments in one section of New Jersey and at least 175 signed confessions of minor evasions netting the state \$11,859.58 additional taxes. Also:

"Although we are all aware that gasoline sales are not increasing 100 per cent by any dealer in this year,

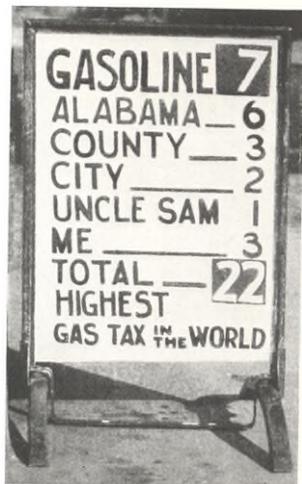
the fourth of Depression, yet voluntary increases in tax payments by certain parties have resulted in \$326,556 being added to our gasoline tax receipts which, I am certain, is due to the knowledge that our investigators were working in their neighborhood. This makes a total of \$338,000 actually added to this source of revenue."

The Federal Oil Conservation Board in its Fifth Report to the President of the United States, in October, 1932, in referring to gasoline tax evasion said:

"Evasion of the tax is a serious problem, not only to the governments of the states in which the tax is evaded, but to honest dealers who pay the tax. Evasion is a widespread practice and the losses to the states, and consequent damage to honest dealers, have reached alarming proportions."

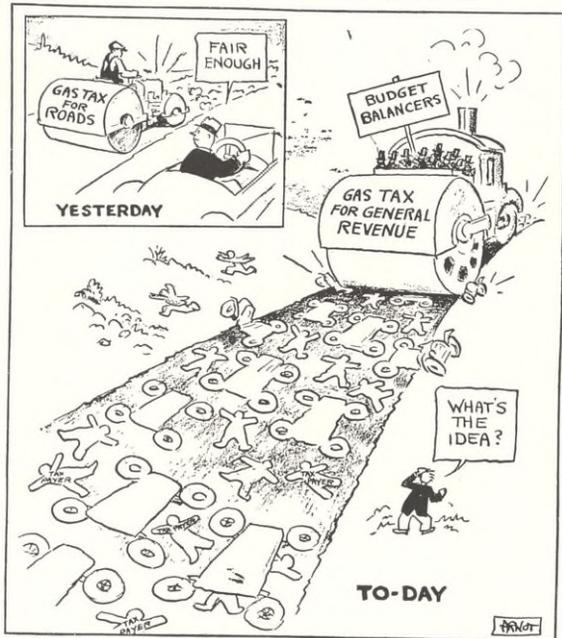
The Honorable Harold L. Ickes, Secretary of the Interior, said, in part, on March 27, 1933, in addressing the joint meeting of representatives of the Governors of the oil producing states and representatives of the oil industry:

"Widespread tax evasion, the illegal production and irregular distribution of unmarketable production, the failure or inability to enforce existing state statutes—all have had a tendency to break down the legitimate conservation programs of the various states. Evasion of both the Federal and state gasoline taxes has in itself unsettled the market for gasoline, the chief product of petroleum, the country over."



(Above) An enterprising gasoline dealer on the Bee Line Highway, near Decatur, Alabama, tells his customers the facts about the gasoline tax

## THE COLOSSUS OF ROADS





ERWING GALLOWAY PHOTOS

*In 1931, eight states produced 63 per cent of the corn crop*

## Alcohol As a Farm Relief Tonic

### WHO BENEFITS?

**T**HE bumper corn crop of 2,900,000,000 bushels in 1932, some 350,000,000 bushels above the previous five-year average, combined with the depression to drop the farm price of corn from 66 cents a bushel in November, 1930, to 19 cents in November, 1932.

This situation gave birth to the idea of diverting corn from moonshine whiskey to moonshine motor fuel. It may pep up the farmer but how about the "Lizzie?" The idea of 10 per cent alcohol in motor fuel is more liberal than 3.2 per cent in beer, but it will raise the cost of 15,000,000,000 gallons of motor fuel at least three cents a gallon to all car owners in the country, which is about half what the oil industry must do if it is to make a return on capital invested.

Is it worth while to attempt to remedy a temporary overproduction of corn by permanently loading the motorist with an indirect tax of close to \$500,000,000 a year? The depression has already caused more than two million owners to stop run-

ning their cars. Imagine the further effect of this proposed burden!

Some form of direct agricultural production control would seem more logical than the doubtful expedient of a law compelling some 25,000,000 motorists to use a new and unproved motor fuel. The farm value of the 1932 corn crop of 2,900,000,000 bushels was only \$551,000,000 at the November price of 19 cents a bushel. Why not reduce production to the five-year average ending with 1931 and get 67 cents per bushel, or a total of \$1,703,000,000, for the farmer? Of course it is obvious that no absolute control of the output of farm crops, which varies with weather conditions, is possible, but at least a program of a reasonable reduction in acreage planted might properly be undertaken.

Corn is taken as the major probable raw material for alcohol because of the abundant domestic supply, widespread distribution, and relative cheapness. Wheat, other grains, potatoes, and by-product molasses are either more expensive, inadequate in

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quantity, or do not represent a material factor in the present farm-aid program.

A bill proposing a 10-per-cent alcohol blend in all motor fuels was recently defeated in the Iowa House of Representatives. The South Dakota Legislature voted against a similar plan. Now supporters of the idea are agitating its adoption by Congress and a large number of state legislatures.

At least one bill specifically limits the application of the proposed law to continental territory, which would exclude alcohol made from by-product molasses from Puerto Rico, Cuba, Haiti, and the Philippines.

be satisfactory? In the first place, the resulting motor fuel would cost more than gasoline alone. If a single farm product, such as corn, were used, the corn farmer alone would benefit, while all other classes of farmers would be saddled with higher motor fuel costs and would not benefit at all.

The farmer would be in the position of having to recoup \$100,000,000 in increased motor fuel costs before he received any net gain from the alcohol program.

The benefit to the corn farmer would depend on the amount of corn withdrawn from the market. On the basis of a production of about two and one-

(Right) Another proposed source of alcohol—the sugar beet



★



(Left) Domestic sugar cane from the South might also be used

★

In 1931, eight states had a corn production of more than 100,000,000 bushels, and together produced 63 per cent of the total crop. Two of these states—Iowa, with 15 per cent of the production, and Illinois, with 13 per cent—have led the campaign for legislation to require the blending of alcohol with motor fuel.

### EFFECT ON THE FARMER

From the farmer's point of view, would this plan

half gallons of alcohol per bushel of corn, about 600,000,000 bushels would be required in the primary process under a 10-per-cent blending program, requiring 1,500,000,000 gallons. Since about 40 per cent of the corn remains as a by-product suitable for stock food, only 60 per cent of the gross corn used, or 360,000,000 bushels, would be actually withdrawn from the market. This amount represents but 14 per cent of a normal crop. An immediate one-per-cent blending program is feasible, but would take only the net equivalent of 36,000,000

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bushels, and would be of little aid to the farmer in the present crisis.

### SUBSTITUTION OF HIGH-COST ALCOHOL FOR GASOLINE

A farm price of 60 cents or more per bushel for corn seems to be the minimum under any program for restoring a normal ratio of farm prices to the cost of farm purchases. The average pre-war price of corn in a period of farm prosperity was about 61 cents. In recent years, the price of what the farmer buys has been relatively much higher than the price received for grain and corn sold. To restore the pre-war ratio, the price of corn must rise above the pre-war level, or commodity prices must be further reduced.

On the basis of a farm price of 60 cents per bushel for corn, the estimated total wholesale cost of alcohol at the plant would be 37 cents a gallon. This compares with a present refinery price for gasoline of from three to six cents a gallon. With an output of 2.5 gallons of alcohol per bushel, the farm corn cost per gallon would be about 24 cents. With a credit of 40 per cent for the value of the by-product stock food, the net farm corn cost would still be more than 14 cents per gallon. To this must be added the cost of shipping the corn from the farm to the plant, the manufacturing costs and an allowance for profits, a total amounting to about 23 cents a gallon.

The further cost of distributing the alcohol to the point of blending and to the motorist will probably be about 15 cents, exceeding that of gasoline by at least four cents a gallon because of the smaller quantities moved, separate storage facilities required, longer freight hauls, and higher rates. This would make the total probable cost of alcohol about 52 cents per gallon to the motorist as compared with gasoline at about 15 cents, excluding the gasoline tax.

It has been estimated that a national project for a 10-per-cent alcohol blend would require a new investment of from \$300,000,000

to \$500,000,000 in grain alcohol plants, and that these must be operated for at least 10 years to amortize the investment. There is no present alcohol producing capacity to furnish more than a one-per-cent blend over present alcohol uses. The time involved in the construction of new plants would minimize any immediate benefit to the farmer.

With the maximum 10-per-cent alcohol blend proposed, some 35,000,000 barrels of alcohol would be required on the basis of an estimated consumption of 350,000,000 barrels of motor fuel for 1933. While the efficiency of the blended fuel might be lower than that of gasoline, the extra amount required would probably be balanced by a decrease in consumption, due to the higher price at which the new fuel would have to be sold. It seems fair to assume that this alcohol would reduce gasoline production by 35,000,000 barrels as a result, and this would mean a decline of almost 73,000,000 barrels in the amount of crude oil produced and refined, based on a 45-per-cent average recovery in 1932.

### EFFECT ON THE CONSUMER

From the consumer's standpoint, the new fuel would be far from satisfactory. Fuel of this sort has been tried out before and has caused repeated complaints of corrosion of important engine parts, faulty starting, and stalling. The fact that 10-per-cent alcohol mixed with gasoline raises the anti-knock value of the fuel and causes an apparent smoothness in engine operation would be offset by the trouble that would occur when the alcohol attacked the shellac used in some cars to cover carburetor floats or in gasoline gauges, gaskets, and at other points where a gasoline-tight joint is required. Leaks would inevitably result, and car operation would be seriously impaired by these troubles as well as by corrosion and clogging of the small passages of carburetors and gasoline supply systems.

With the blended motor fuel, car owners would be paying at least three cents more for every gallon of motor fuel, and would be



*Wheat farmers also would benefit, say the sponsors of the plan*

## The TEXACO STAR

buying certain trouble and extremely uncertain advantages. To the average owner of a passenger automobile using 500 gallons of motor fuel a year, this would mean paying \$15.00 additional. The 5,000,000 owners of motor vehicles on farms would also have to share in the expense of their own relief.

To the petroleum industry, a motor fuel blended with alcohol would be highly unsatisfactory, aside from the fact that motor fuel consumers would be certain to experience trouble with the new blended gasoline.

Ordinary industrial alcohol, which contains five per cent of water, will not mix with gasoline. In order to blend with gasoline, the alcohol must be practically water-free. Blending agents can be used to overcome this tendency, but such agents are more expensive than alcohol. Their use would not help the farmer but would increase further the cost of his motor fuel and the entire motor fuel bill of the country.

The petroleum industry will be placed under heavy expense to comply with alcohol regulations and to supply additional storage and blending equipment. The difficulty of enforcing the proposed laws requiring a certain blend of alcohol with gasoline is obvious. Tax evasion, which is now causing the petroleum industry so much trouble, would be enormously increased, and bootleggers of both alcohol and gasoline would profit. The gasoline bootlegger would benefit by not adding the required expensive blend of alcohol, and the alcohol bootlegger, by adding water to cause the rapid separation of the alcohol from the gasoline, would have not only a good alcohol supply at little cost, but would market the remaining pure gasoline at a higher price than the blended motor fuel.

### PLAN ABROAD HAS NOT AIDED FARMERS

The idea of a gasoline-alcohol blend is not new, nor is it an American idea. It has been tried in foreign countries, mainly in Germany, France, Austria, and Italy, where the major supply of gasoline is imported and where the cost of alcohol is relatively low. Farmers in these countries were not intended to be the sole beneficiaries of the plan, nor does their present condition indicate that they have been beneficiaries in any way.

In these countries, the situation has been exactly opposite to that in the United States. This country produces all the gasoline required by the domestic market and has a surplus for export. Any increase in alcohol production would be balanced by a decline in gasoline output. There would be no total increase in domestic industry to replace imports, but merely a shift from one raw material to another.

It is desirable that the farmer have relief from his present plight. On the other hand, we cannot help but conclude that the movement to develop an alcohol-blended motor fuel will not aid him, but will build up excess profits for the distiller and tax evader and place an unwarranted burden on everybody, including the farmer himself.

This Company is willing and anxious to be a part of any movement that will aid the agricultural portion of our nation, but no progress can be made by promoting plans that even under favorable conditions abroad have failed to achieve the results hoped for, nor furthering plans to be carried out at the expense of the public, including the very class they are expected to aid.

Let's be careful about hastily promoting the promoters' promotion.



# A. P. I. Outlines Principles to Stabilize Oil Industry

*Directors Adopt Program for Sound Administration  
of Market Demand Statute, February 8, 1933*

**T**HE conservation laws of the oil-producing states are designed both to prevent physical waste and to conserve their petroleum resources for the benefit of the people as a whole. The latest of these laws seeks to accomplish these purposes in particular by limiting the production of crude oil to the reasonable requirements of the market—that is to say, the reasonable requirements of the consumer. One of the purposes for which the American Petroleum Institute was organized was and is to cooperate with the Government—Federal and state—in respect of matters concerning the industry, and we therefore believe that it is the duty of the industry to assist Federal and state authorities in the administration of their laws relating to petroleum. In doing so the first requisite is sound thinking within the industry itself. We, therefore, are of the opinion that a sound administration of the market demand statutes should include the following general principles:

(a) In a broad and general sense the measure of market demand is the consumption of refined products.

(b) Current production should not exceed this demand and should make some allowance for withdrawals from storage, which is now excessive.

(c) Producing capacity being already far in excess of consuming requirements, there is no public interest in developing new pools, and, therefore, production from new pools should be restricted to the utmost limit permitted by the laws of the states.

(d) Both in the interest of conservation and the prevention of waste the production of stripper wells should be the last restricted.

(e) After allowing for the production of stripper wells and the utmost restriction of new pools, the intermediate existing flush pools should be so limited as to bring the total production in line with the total market requirements.

(f) The production for each state should be prorated as between pools on a fair basis, and the production of each pool should be prorated between the property of producers on a fair and equitable basis.

(g) In order for this program to succeed it is absolutely necessary that the lawful orders of the state commissions be rigidly enforced and every person engaged in the industry should assist the commissions in enforcing such orders, and should avoid any and all acts which would directly or indirectly circumvent or tend to defeat such orders.

(h) If the states adequately enforce their conservation laws, the effect should be the marketing of all oil produced at the competitive prices which from time to time are publicly posted.

(i) The subject of domestic crude oil production is inseparably related to the production of other countries, and in order to apply these principles and make them effective in the United States it is necessary for similar principles to be applied to the production of crude oil in other exporting countries.

(j) In addition to this, the important subject of the gasoline tax and gasoline tax evasion cannot be omitted from the picture. The gasoline tax has reached a point where the motor vehicle because of this and other taxes is now paying approximately 10 per cent of the total tax burden of the United States, including Federal, state and local subdivisions, and on an average more than 40 per cent of the revenues of the states. This burden has already reduced the consumption of gasoline, the purchase of new cars, and the number of cars in use is now at least 3,000,000 less than three years ago. Gasoline which escapes the tax destroys the competitive price structure determined by economic conditions and this in turn reacts on the conservation program in the same manner as the surreptitious production of crude oil.

# Illegal Domestic Production and Insufficiently Restricted Foreign Oil, Causes of Petroleum Chaos

*1933 Allowable Would Not Exceed Market Requirements If Proration Were Fully Enforced*

By R. C. HOLMES

President, The Texas Company  
Statement issued February 13, 1933

IF THERE is any merit and value in the declaration of principles adopted by the Board of Directors of the American Petroleum Institute on February 8 that has not applied to previous declarations in one form or another, it is in the fact that all of the 13 members, except one, were present in the Executive Committee meetings and more thoroughly discussed and analyzed the domestic as well as the world conditions which have resulted in the unsatisfactory state of the industry; and that they and the members of the Board who were present at the Board meeting on the eighth were unanimous in subscribing to and adopting these principles.

There are, of course, a great many adverse conditions, including unsettled exchange, financial distress and other factors, but it seems to me we get down to a few important conditions strictly within the industry itself which, if understood clearly and acted upon, would give some hope and promise of improvement.

*First:* In spite of the very large potential production which has been developed in the last few years, United States production as reported by the Bureau of Mines and the American Petroleum Institute for the year 1932 is about 12 and one-half per cent under the year 1928. The total world production as a whole, including the United States, Russia and all other producing countries, is about two per cent under 1928.

*Second:* Our trouble today is not that allowable production in the United States is in excess of market demands, but that in the United States there has been, and is, production in excess of the allowables and in excess of the amounts reported to the Bureau of Mines and to the American Petroleum Institute; and that foreign production has not been sufficiently restricted.

*Third:* It is estimated that at least 95 per cent of the producers in the United States are doing all in the way of restriction that is necessary to bring production within consumption requirements, and it remains for the small outstanding minority to be influenced or required to do its part.

*Fourth:* It is conservatively estimated that the al-

lowable production in the United States, taking into account imports and exports, is sufficiently low to avoid any excess over requirements during the year 1933 if proration were fully enforced.

*Fifth:* Those familiar with the production situation the world over know that if the industry fails in these coöperative efforts to give the opportunity to all existing fields to supply as nearly as possible an equitable portion of the market requirements, the inevitable result will be that the lowest cost production would be produced first. California, East Texas and South Texas; northern South America, Persia and two or three other sections of the world could each alone for a time, by opening up the valves, supply nearly all the world, making it utterly impossible for pumping fields or any of the older fields to produce at all. The consequences would be the dissipation of all of the world's larger reserves of crude oil and the other assets of the industry at a tremendous cost to every one concerned. Are we, through failure of the authorities to issue legal and fair orders and apply same equally to all, going to permit of this result?

I am hopeful that the industry and the State Commissions will make an earnest effort to hold production to approximately the present allowed figure which would permit of the withdrawal of a reasonable amount of oil from storage and should assure all producers of a market for their production at open posted prices. Experience has taught us that it is difficult to vary production by months, and that the conditions could be much more stable and satisfactory if buyers of oil were more willing to store the excess in the Winter and take from storage when refinery runs are heavier in the Summer.

It is certainly a fact that no buyer of crude, large or small, can afford over any extended period of time, to pay higher prices than those at which his competitors can secure their supplies, or any considerable part of their supplies.

Also, it is just as vital to the interests of the oil producer as it is to the marketer to oppose excessive gasoline taxes and their evasion.

UNIVERSITY OF HOUSTON

## Executive Committee's Interpretations

Statement Issued March 12, 1933

**B**BETTER administration of conservation laws by more effective coöperation between the petroleum industry and the national and state governments is advocated in a recent statement by the Executive Committee of the American Petroleum Institute. The statement took the form of an interpretation of the declaration of principles recently adopted by the Institute's Board of Directors.

A few days earlier, the Executive Committee authorized the appointment of a committee of 12 charged with the responsibility of discussing with local and regional associations in Kansas, Oklahoma, and Texas problems incident to the formulation of a definite program of coöperation with the enforcement agencies of those states. This committee, headed by J. Edgar Pew as chairman, included R. C. Holmes, Harry F. Sinclair, Walter C. Teagle, E. R. Brown, Axtell J. Byles, Edward G. Seubert, Dan J. Moran, R. G. A. van der Woude, Frank R. Coates, and Frank Phillips. C. B. Ames, President of the American Petroleum Institute, is an ex-officio member of the committee.

The interpretations suggested by the Executive Committee were:

1. In states having statutes providing for limitation of production to reasonable market demand, the law cannot be properly administered unless there is a market for all the oil produced.

2. No oil produced in violation of the laws and regulations made pursuant thereto should be run by the pipe lines or received into the pipe lines at any point whatever.

3. Such unlawful oil, commonly known as "hot oil," should not be purchased in the field where produced or elsewhere from either producers or brokers or from any other person.

4. In order to effectually coöperate with the state officials, any oil run into pipe lines should be carefully checked, whether the same is received directly in the field, from other gathering lines, pipe lines, from storage, or elsewhere; and definite assurance should be required that it has been lawfully produced.

5. As long-time contracts for the purchase of oil tend to frustrate the efforts of the states to adjust production to reasonable market demand on a current basis, coöperation with the regulatory authori-

ties would be improved if such contracts were avoided and oil purchased currently at the publicly posted prices of the respective purchasers.

6. The petroleum industry can assist the enforcement agencies of the states by complying with the principles announced in these interpretations.

7. Those engaged in the petroleum industry should do nothing directly or indirectly to evade or circumvent the enforcement efforts of the several states.

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## Opinion of the Standard Oil Company (New Jersey)

**T**HE Standard Oil Company (New Jersey) expresses in the February issue of its official publication, *The Lamp*, the willingness of the New Jersey companies "to coöperate in a program that contemplates no withdrawals from domestic crude stocks, even though the Institute directors recommended permitting some reduction in these stocks."

The recommendation referred to was included in the first main principle of the production program outlined recently by the American Petroleum Institute, which was: "Current production not to exceed market demand, with provision for withdrawals from storage." Another feature in the Institute proposals reads: "This program recommends that production be held to a level which will permit withdrawals from stocks. It is estimated that the industry has, in round figures, 20,000,000 barrels excess gasoline and 220,000,000 barrels excess crude in storage."

Further editorial comment by *The Lamp* voices the hope that "the conservation authorities, in determining market demand and the allocation of production to meet this demand, will act in a way that will eliminate so far as possible any additions to storage."

The program outlined by the Institute was expected, if adequately enforced, to eliminate so-called bootleg or "hot oil." With respect to the position of the Standard Oil Company (New Jersey) in this program, the magazine says:

"Its subsidiaries have never bought 'hot oil.' Their purchases have all been made at publicly posted prices. Their pipe lines have not accepted for transportation oil produced in excess of the allowable. They have not financed producers in the drilling of new wells, accepting oil in payment for the money so advanced at a discount below the posted price."

## Mr. Sinclair's Comments

Statement issued by Harry F. Sinclair, Chairman of the Executive Committee, Consolidated Oil Corporation, February 10, 1933

**P**RORATION is making its last stand. If the law can not be enforced and development of new pools and over-drilling limited, we shall be compelled to look elsewhere for corrective measures. Meanwhile, it is encouraging to find a large part of the industry, particularly the major companies, united in facing the facts of the situation and in advocating corrective and constructive measures.

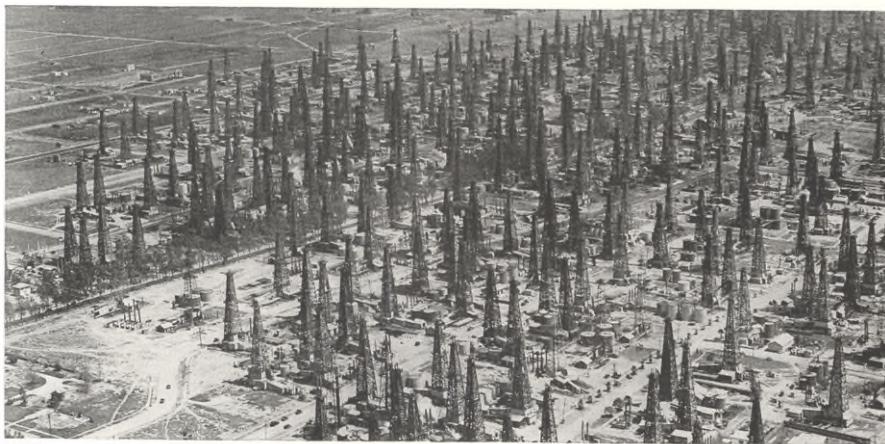
In effect, the declaration of principles put forth by the American Petroleum Institute is a statement of things that must be done if proration is to succeed in stabilizing the oil industry. It is also an admission that attempts so far made to bring about stabilization by proration have been ineffective. Limitation of current production to market demand, restriction of new pools, fair allocation of demand as between pools and producers in the same pool, preservation of stripper well production, restriction in countries exporting to the United States, gasoline taxation and tax evasion—all these are important factors.

It must be understood, however, that the things the Institute declares should come to pass are all dependent upon enforcement and strict observance of the laws by all elements of the industry, large and small. Without this nothing can be accomplished. It is useless to talk about what should and can be done until this is brought about.

I want to lay particular emphasis on that part of the Institute program which declares that production from new pools should be restricted to the utmost limit permitted by the laws of the states. Unlimited development of new production and proration can not be carried out at the same time. Once permit a new pool to be developed and the task of controlling its output is hopeless.

Last year under so-called proration, 2,474 more wells were drilled than in 1931. The increase in actually productive wells in 1932 was almost 60 per cent. If the attempt to control oil production is to continue and succeed in its objectives there must be some very definite restrictions put upon drilling new fields and over-drilling those we already have.

It is worth pointing out that this declaration of principles is not an agreement in any sense; it is a conditional statement to which the leaders in the industry have subscribed. To make it effective requires not only more thorough enforcement but absolute good faith in performance by the oil companies themselves. The stand taken by the Institute should have an important effect in securing the cooperation of the oil companies in enforcing the orders of conservation commissions, and, as the statement says, in avoiding "any and all acts which would directly or indirectly circumvent or tend to defeat such orders." There is also more than a mere suggestion that if proration orders are enforced, all legally produced oil should find a market at the publicly-posted prices. With bootleg oil out of the picture, we shall be on the road to much sounder conditions.



A good example of over-drilling: Oil field at Signal Hill, California

# Our Policy Regarding Crude Oil Prices

## Statement by The Texas Company's President on Adherence to Posted Schedules

*The following resolution, by Representatives Walker and Burns, was adopted by the House of Representatives of the Texas Legislature, Thursday, March 2, 1933, without opposition.*

"WHEREAS the independent oil producers throughout the state and nation are facing ruin and bankruptcy due to the present ruinous low prices for crude oil which threatens the life of the industry, and

"WHEREAS our state is largely dependent for its needed revenue to balance its budget from said industry, and

"WHEREAS the present price of crude oil throughout the Mid-Continent field is far below the actual cost of production;

"THEREFORE be it resolved by the House of Representatives of the Texas Legislature that we respectfully urge all purchasers of crude oil throughout the United States to come to the relief of the state and raise the price of crude oil to such price that the industry may survive."

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*(Statement issued by R. C. Holmes, President of the Texas Company, March 4, 1933)*

SINCE January 20, 1933, The Texas Company has been paying from 8¢ to 12¢ per barrel higher for crude oil in South Texas than the prices posted by other large buyers, and in the Panhandle section substantially the same condition exists.

Effective March 6 we will reduce our postings to meet this competition.

If on April 1, 1933, or any date prior to April 1, the authorities of the States of Texas and Oklahoma shall have fixed the allowable of crude production in line with reasonable market requirements, and shall have prevented entirely the production of oil in excess of such allowable, The Texas Company will post a price of 75¢ per barrel for 35.0 to 35.9 gravity Mid-Continent, North Texas and East Texas crude oils, with proper differentials for gravities above and below and such prices in other fields in relation to the above as it is willing to pay.

The Texas Company's policy as to prices thereafter will depend upon conditions existing at the time. If oil is being offered on or after April 10, 1933, at less than our postings, we may consider it necessary in our interest thereafter to buy at the lowest prevailing prices at which crude is offered.

After making due allowance for estimates of probable imports and exports and a possible 10 per cent decrease in domestic gasoline consumption, and

allowing for a desirable and probably inevitable withdrawal from storage by the industry throughout 1933, because of financial stress if for no other reason, it is our opinion that the average daily requirement of crude production in the United States will be 1,985,348 barrels and recommend this until some better or possibly more accurate estimate is determined.

This could be accepted as a fair and desirable estimate of market requirements and it is desirable that the states, in whatever way they properly can, should determine among themselves the allowable for the various states; and that each state should determine the proper allocation of the different pools within such state.

In the meantime, if the conservation authorities in Texas and Oklahoma, or elsewhere, will accept the coöperation of competent committees representing the oil industry in endeavoring to arrive at the most equitable basis for allowables; and of a committee of counsel from the industry to assist in drafting the necessary conservation laws and Commission orders that may better stand the courts' tests as to validity, I will immediately endeavor to get the industry to form such committees, with the hope that we may have fuller and more effective coöperation between the industry and the states' authorities in acting in the joint interests of both.

The Texas Company has no desire, nor do I believe the buyers generally of crude have any desire, to buy crude oil at prices that are ruinous to the producers of crude. If, under existing conditions, it is not possible for all industries to get on a better and more sound basis, certainly it is desirable that any one industry should do whatever it possibly can in a lawful way to contribute to an improved condition.

R. C. HOLMES, *President*

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## Burden Is On State

*Editorial in the Dallas News, March 10, 1933*

THE offer of R. C. Holmes, President of The Texas Company, to take the lead in raising the price of crude oil, places the burden of stabilization in the industry on the two States of Texas and Oklahoma. The inference to be drawn from the official statement is that neither State has been efficient in

making its proration laws effective. The allowable prescribed by both is in line with the market demand, as outlined by American Petroleum Institute figures. The actual production is regarded by observers as far in excess of it. The situation merely demonstrates that neither a law nor an order made in accordance with it covers the case until the law is followed and the order enforced.

When the order was issued in Texas, The News urged producers to accept and try it. That was not done, some thirty companies attacking its validity in the cases recently joined and tried in Federal Court. Ability of the order to withstand court scrutiny is open to question, yet it is certainly possible to draw an order in conformity with the law, or to pass a law in accordance with principles already sustained by the United States Supreme Court. Available to the State and the Railroad Commission is the advice and help of the ablest legal talent in the oil industry.

The point is that petroleum is the one basic industry in which limit of production to market demand is permitted by law and possible because of its nature. It is in all probability the key to Texas economic recovery. It can certainly restore buying power to thousands of Texas families dependent on royalties, wages, and profits, if the course plainly charted for it is followed. It is folly to suppose that any part of the industry will produce under restriction indefinitely while another part profits by running illegal oil or under the protection of injunction.

The Texas Company has lowered the price on crude, while promising an advance if Texas and Oklahoma can make good their proration orders. The act is an indication of what will happen if proration is not made actual instead of conversational.

## Thompson Scores Company's Offer

*Statement by Ernest O. Thompson, Railroad Commissioner of Texas, which appeared in the Dallas News, March 12, 1933*

I HAVE read and carefully considered your editorial in your paper of Friday, March 10, under the heading "Burden Is on State." The editorial has to do with the offer of R. C. Holmes, President of The Texas Company, to raise the price of crude oil provided the States of Texas and Oklahoma will do certain things, and I trust you will permit me to give you my views on this matter.

In the first place, price fixing is against the genius of our Government. The Railroad Commission of

Texas is not a price-fixing body. The laws of Texas do not contemplate that the American Petroleum Institute or the president of any great oil company shall tell the State of Texas how much oil it will be permitted to produce. That is the duty of the Railroad Commission of Texas.

You state that the inference to be drawn from Mr. Holmes' statement is that neither Texas nor Oklahoma has been efficient in making proration laws effective. I invite your attention most respectfully to the fact that when you try by statute to regulate the almost immutable law of supply and demand you are undertaking a rather large order.

The present proration law in Texas does not permit the use of any force whatever by Railroad Commission employes in compelling obedience to the commission orders. We can not legally do as much as turn a valve without being in the position of having taken charge of private property. All that we can do is to gauge tanks and read meters, and if we find that the allowable production has been exceeded we report same to the Attorney General, who goes to the District Court of Travis County and applies for an injunction against that producer from further violating the proration laws.

If the injunction is granted which tells the producer that he must desist from producing more than the allowable per day, and we find by gauging that the producer has, in fact, again violated the proration laws by over-producing above the allowable, we then report the same with the exact sworn data to the Attorney General, who, in turn, goes to the court which issued the injunction and files upon the violator for contempt of court. The extreme penalty for contempt of court, I believe, is three days in jail. The offenders generally have transferred the property from themselves to others during the interim and thus avoid prompt punishment. In the meantime the violation goes merrily on, with the hands of the commission tied down by the above mentioned restrictions.

The facts which I have just related about the cumbersome method which we are compelled by law to follow in enforcement are the reason for the violations not having been more effectively checked before this. What is needed is some penal statutes, which will make the act of over-producing in violation of the laws of the State and the orders of the commission offenses for which arrests may be made on the spot by local officers and for which conviction can be had in local courts. This will bring the force of local public opinion behind proration.

### State Can Not Bargain

The suggested bills outlining the offenses which

should be made crimes have been prepared and are in the hands of the Legislature. If they are passed, proration can be enforced almost absolutely.

Getting back to Mr. Holmes' letter, I invite your attention to the fact that the State of Texas can not bargain with anybody regarding a price-fixing policy. Mr. Holmes says that he will raise the price of oil to 75c a barrel when we shall have prevented entirely the production in excess of the allowable, which he suggests that the States of Texas and Oklahoma shall get in line.

Texas can not enter into agreements with other States. This was attempted in the past by the Oil States Advisory Committee. It was properly and soundly scored by the three-judge Federal Court in a case heard at Houston. The Railroad Commission of Texas has had nothing to do with any such agreement since I have been a member of the commission.

Mr. Holmes gives his opinion that the average daily requirement of crude production in the United States is 1,985,348 barrels. He states that if all of the oil states will see that exactly this much oil is produced he will raise the price 25 cents providing oil producing States will accept cooperation of competent committees from the oil industry to arrive at a method of dividing the allowable production of oil, and further that we shall accept the advice and cooperation of a committee of counsel from the oil industry to draft the necessary conservation laws and commission orders.

#### Too Much Domination

In other words, if Texas will let Mr. Holmes first tell the producing States how much oil they shall each be permitted to produce, and then if Texans will let Mr. Holmes and his associates tell us how much of that total Texas can have, and then if Texas will let Mr. Holmes' lawyers draft our laws and write our orders, then they will raise oil a quarter.

I can not let this most flagrant attempt at monopolistic domination and dictation go by without raising my voice as a public official of the State of Texas against such effrontery. It is an example of the kind of control that big business is trying to exert over the people of this land. I refer most particularly to some large oil companies' activities in their efforts to dominate the conservation policies of Texas.

Today, oil and gas are our greatest natural resources and we should guard carefully to see that this great birthright of Texas be not delivered over to these greedy monopolistic corporations.

NOTE: On the day of this statement, March 12, 1933, excess production over allowable in the East Texas field alone, either permitted by Mr. Thompson or out of his control, or both, amounted to 202,730 barrels.

## Not a Law for the Few

*Editorial in the Dallas News, March 13, 1933*

The News can not wholly agree with Railroad Commissioner E. O. Thompson's views on proration enforcement in Texas and its relation to economic stabilization in the industry.

The News recognizes the difficulties confronting the Railroad Commission in enforcing proration law under the present cumbersome procedure and lack of disciplinary power and it indorses the effort to correct the condition by statute.

But The News believes, with most of the oil operators of Texas, that production in excess of the allowable is a negligible amount from the wells of operators who will take the chance of defying any legal order; it believes that real surplus is produced by a very small group who will continue, until an order is written that the courts will sustain.

The News can not find the President of The Texas Company out of order in urging on the Commission the use of the oil industry's ablest lawyers for voluntary advice on a rule that the Federal Courts will sanction. The News has suggested the same course and reaffirms that there is no value in any order that is ineffective. Surely withdrawal, before an adverse court decision has been rendered, evidences the Commission's lack of faith in its own test order for the East Texas field.

The News agrees that technically the Railroad Commission of Texas is not a price-fixing body. But it is submitted that, when consideration of market demand was made a part of the proration law, the latter became price-fixing in nature. Thus regulation in accord with it can not avoid market effect. This consideration was urged by the industry and enacted by the Legislature with no other end in view. The News commends the frank recognition of that in Commissioner Thompson's banquet address in Tyler on September 27, 1932.

The demand voiced by R. C. Holmes of production so limited as to force a rise in crude price is not that of the major companies. It is the cry of 95 per cent of the oil operators of Texas. It is becoming the demand of most of these five thousand men who have loyally obeyed the orders of the Commission and suffered, while the less than 50 who benefit by ineffective orders or lax enforcement drain their oil and lower the price of their allowable.

The News begs leave to paraphrase Commissioner Thompson's well-chosen words: Today oil and gas are our greatest natural resources and we should guard carefully to see that this great birthright of Texas is not delivered over to the greedy who oppose and defy the law.

# Mr. Holmes States Petroleum's Case

## *Summarizes the Industry's Condition Before Texas Lawmakers*

WHEREAS, the House of Representatives has recently passed a resolution asking the purchasers of crude oil to grant a raise in prices; and

WHEREAS, in answer to the said resolution the 14 largest buyers of crude oil in the Nation have come to Texas and will be in Austin on Thursday, March 16;

WHEREAS, these said purchasers who have already appeared before the joint meeting of these six State organizations, are of the unanimous opinion that it is imperative that the Legislature of Texas have the benefits of facts which have been presented to them in order to avoid a certain crisis in the oil industry,

THEREFORE, be it resolved by the House of Representatives that the said purchasers of crude oil be invited to appear before the House of Representatives on Thursday, March 16, at 7:30 p. m., at which time the House will stand at ease.

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*Address by R. C. Holmes, President of The Texas Company, before the House of Representatives, Austin, Texas, March 16, 1933\**

*Mr. Speaker, Members of the House, Ladies and Gentlemen:*

About a year and a half ago I enjoyed the courteous consideration of this body for two days.

I want to appeal to you on two or three principles in connection with this conservation effort; then to whatever extent I can, briefly support it with a few statistics and arguments.

Some years ago it became very apparent to most of us in the oil industry and those responsible for the welfare of the country that some way should be found to avoid the waste of great quantities of oil and gas we were experiencing, as well as the waste of values. The shortage of oil during the war period and the need for conservation for the future was recognized and later followed up in 1924 by a definite recommendation by President Coolidge and the principle, or policy, of conservation was set up. Considerable work was done, but it was not until the end of 1928 that the demoralized condition of the oil industry roused a majority of the oil people, large and small, to the conviction that it was necessary to attempt some constructive action.

Recognizing that it was a world problem, at a meeting of the American Petroleum Institute in Chicago in November, 1928, at which possibly 80

per cent of the production of the world was represented, regional committees were set up by the Institute to attempt to formulate a plan whereby we might in an orderly way accomplish what was desirable.

The study covered the production sections of the United States and Mexico and Northern South America, the chairmen of the regional committees finally forming a general committee which had its meeting in Houston, Texas, early in March, 1929, at which time, as Chairman of this general committee I took it upon myself to invite the Secretary of the Interior (who was chairman of the Federal Oil Conservation Board); the Railroad Commission of Texas; the Corporation Commission of Oklahoma; and the Conservation Commission of California, to sit with us in our deliberations and formulation of plans.

All of these bodies accepted and attended, except that Secretary Wilbur, being unable to come, sent George Otis Smith, head of the United States Geological Survey and head of the Board's Technical Advisory Committee.

This meeting resulted in an understanding of the effort, not only by the industry but by these authorities in the different states who have such direction and supervision of the industry's producing activities as is had by government. And it can be said to the credit of all of these organizations that their understanding was a sympathetic and constructive one, and that they all carried on apparently to the best of their ability, sometimes even possibly exceeding their vested authority in doing all they could to uphold such conservation laws as were in effect at that time. It has only been within the last two years that the disregard for the authorities and violations of Commissions' orders has resulted in a general demoralization and unbearable inequities and injustice to the producer who observes the law, causing these law-abiding and constructive producing elements to become thoroughly discouraged and disheartened because of the injustices of the situation. A few racketeers and oil thieves are able with their organized efforts to bankrupt a greater number of small and large producers than any monopoly could ever accomplish even if free from all restrictions.

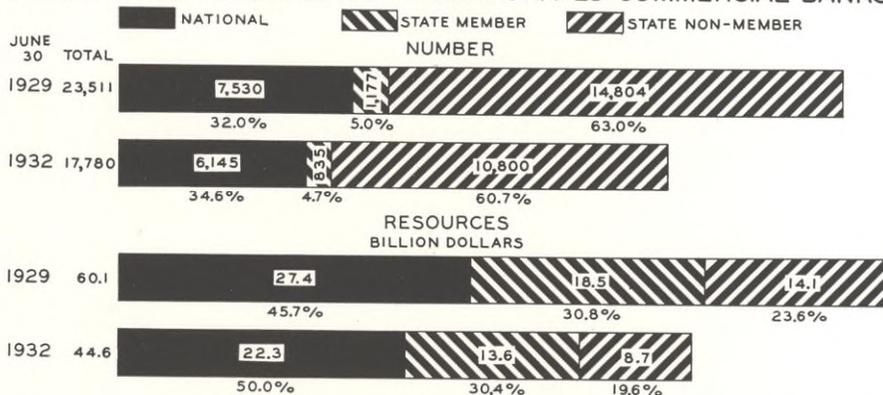
It is recognized that market requirements are world consumption of petroleum products. At this

\*Delivered extemporaneously, and by request dictated next morning.

# BANKS IN THE UNITED STATES 1929 AND 1932

COPYRIGHT, 1933, BY  
NATIONAL INDUSTRIAL CONFERENCE BOARD, INC.  
NEW YORK CITY

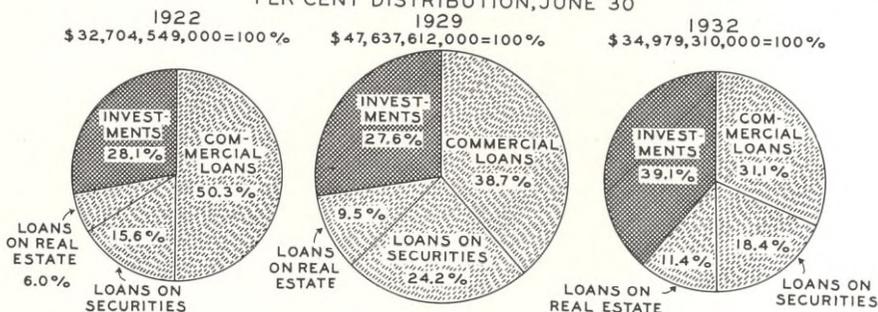
## NUMBER AND RESOURCES OF INCORPORATED COMMERCIAL BANKS



## NUMBER OF INCORPORATED BANKS, (INCLUDING SAVINGS BANKS DISTRIBUTED BY SIZE OF CAPITAL STOCK-(SURPLUS FOR MUTUAL SAVINGS BANKS)

| JUNE 30 TOTAL | UNDER \$25,000 | \$25,000      | \$25,001 TO \$99,999 | \$100,000     | OVER \$100,000 |
|---------------|----------------|---------------|----------------------|---------------|----------------|
| 1929 24,880   | 5,468 (22.0%)  | 5,352 (21.5%) | 7,100 (28.5%)        | 2,803 (11.3%) | 4,157 (16.7%)  |

## LOANS AND INVESTMENTS OF INCORPORATED COMMERCIAL BANKS PER CENT DISTRIBUTION, JUNE 30



PREPARED FOR THE ONE HUNDRED AND FIFTY NINTH MEETING  
NATIONAL INDUSTRIAL CONFERENCE BOARD, INC. - MARCH, 1933

COURTESY NATIONAL INDUSTRIAL CONFERENCE BOARD, INC.

# HELP!

Houston meeting in 1929 we estimated, taking into consideration the gradual improvements in refining processes, that the amount of the 1928 production of the United States and of Mexico and Northern South America would be a sufficient quantity for the year 1929 and probably for the years 1930 and 1931, and that efforts should be made to avoid all possible waste and restrict production as nearly as possible to the 1928 production, gradually working out such inequities as existed in the distribution of production as new information from time to time was developed bearing on the problem; new pools and declining pools naturally having a material bearing on the amount that actually should be produced in the different areas.

Practically all states and producing areas of the world, except Texas, Russia and Roumania, have reduced their production under 1928, Texas having increased it by 22 per cent. In the meantime, Oklahoma, California, Persia and some other sections have developed potential production, or ability to produce very large quantities of flush production.

The figures I have given are for the recorded production, in addition to which is the illegal oil produced in excess of Commissions' orders, which according to the best information we can get today exceeds the daily production of all of the eight producing states East of the Mississippi River. It exceeds the production of Kansas.

The second principle, or policy, or virtue I urge you to consider is neighborliness, and to practice it as you would practice it in every-day local affairs.

In a state you have neighboring pools. You have neighboring oil producing states, and we have neighboring oil producing nations. It is a world problem and it is impossible to solve it if any one nation, or any one state, or any one pool has lack of consideration of the other's necessities regardless of the effect of producing more than the others can accept as an amount in accord with reasonable consideration of other producing areas or producing states or countries.

In my judgment the State of Texas has failed to comprehend that it cannot exclude itself from consideration by other states and other countries because of the fact that it is one of the very large producing states. It produces cattle, wheat, rice, lumber and petroleum and many other products far in excess of its own consumption and must meet in competition the products of other states and nations in the markets of the world. It can only do so on a profitable and satisfactory basis through recognition of the consideration due its neighbors.

In 1928 the State of Texas produced 29 per cent of all of the oil produced in the United States and

19 per cent of the world's production, and in spite of declining market requirements, gradually increased its production until in 1932 it was producing 40 per cent of the crude produced in the United States and 24 per cent of the production of the world. During the last few weeks, counting the production in excess of allowables, it has reached nearly 30 per cent of the world's volume, notwithstanding something over 80 per cent of the crude oil production of Texas and about 90 per cent of the gasoline production is sold outside of the State.

The economic waste is tremendous. The value at the well of the United States crude oil production of 443,000,000 in 1921 was approximately the same as received for double that quantity in 1932. Crude prices have dropped from an average of \$1.63 in 1921 to 37 cents in 1932 and to 57 cents at this time.

Certainly the authorities, both Federal and state, have a responsibility for the present as well as future welfare of the country, and an obligation to protect, so far as it is possible, this country in its future supply of petroleum products. It is quite as essential that the authorities protect our needs 25 or 50 years hence, and even beyond, as it is to provide for our present requirements.

It is roughly estimated that the known reserves of the world do not exceed 20 billion barrels, with a production in 1929, of 1,484,000,000 barrels and in 1932 of 1,306,000,000. It is possible that without additional discoveries these reserves might supply the requirements from year to year for a period of eight to 10 years, but it is more likely that because of the fact that it takes a long period to extract all of the oil from the producing sands that without additional discoveries we will be short of full requirements in much less than 10 years.

The original fields of Baku, Russia, have been producing over 75 years, and some of the fields in Pennsylvania over 50 years, the oil coming out in small quantities. The point is that the estimated potentials are not available just as they are required unless supplemented by new discoveries; and we will within a short period of years very likely experience an actual shortage of the oil available for our requirements because of the inability to extract the older fields at a rapid rate.

I have often wondered how those responsible for the protection of these reserves and future needs, and the avoidance of waste, would feel if in a few years this country were obliged to seek a part of its consumption requirements from other countries. In the event of a shortage we would pay heavily for our waste and our negligence.

Again I say it is not a matter that can be considered as a subject for each state or each country

M. D. ANDERSON UNIVERSITY OF HOUSTON

# PRICES AND GROSS INCOME

AGRICULTURE, UNITED STATES

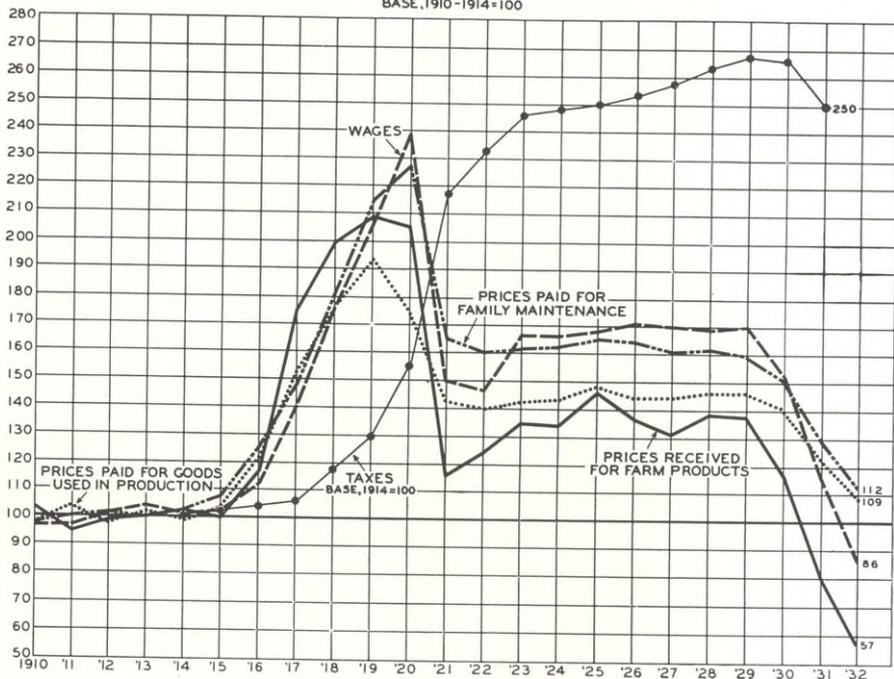
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NATIONAL INDUSTRIAL CONFERENCE BOARD, INC.

NEW YORK CITY

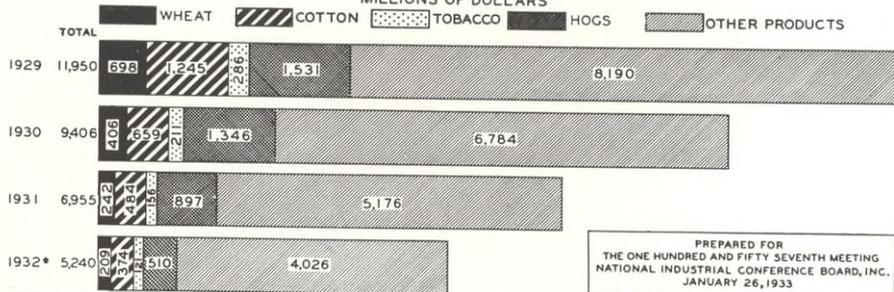
## INDEX NUMBERS OF FARM PRICES AND FARM COSTS, 1910-1932

BASE, 1910-1914=100



## GROSS INCOME FROM FARM PRODUCTS

MILLIONS OF DOLLARS



\*PRELIMINARY

PREPARED FOR  
THE ONE HUNDRED AND FIFTY SEVENTH MEETING  
NATIONAL INDUSTRIAL CONFERENCE BOARD, INC.  
JANUARY 26, 1933

COURTESY NATIONAL INDUSTRIAL CONFERENCE BOARD, INC.

# HELP!!!

## The TEXACO STAR

to act upon independently of others. It is a world problem.

On the economic side the question of price has been raised by this House.

When the producers of this state and some of the other states a few years ago called upon the Federal Congress for an import duty, they gave recognition to the fact that it was a national affair and an international one. The Congress caused a study to be made of producing costs in the United States and in Venezuela, that report being published under date of February 1931. If any of you are interested in producing costs you will find that publication an interesting and enlightening one. It shows that the average cost of producing oil in the United States in the years 1927, 1928 and 1929 was \$1.27 a barrel, and with interest on the investment added, \$1.39 a barrel. Thirty-two per cent of this cost under 80 cents; 27.62 per cent between 80 cents and \$1.60; 33 per cent between \$1.60 and \$3.20, and 2.38 per cent over \$3.20. This 2.38 per cent is approximately 50,000 barrels a day. The average cost east of the Mississippi River, including the states of Indiana, Illinois, Michigan, Ohio, Kentucky, West Virginia, Pennsylvania and New York was \$2.65.

Established values or prices by agreement are impossible. They can only come in this situation by such regulatory activities and orderly procedure as will keep production on the whole within market requirements, avoiding excess oil, whether legal or illegal, in order that all production may be in demand and have a market such as results from competitive bidding.

All of us here on this committee are buyers of oil. The Texas Company during 1932 bought approximately 100,000 barrels per day, producing approximately the same amount. There is no difference in the real interest of the producer and the producer-buyer when they carry on in an orderly and reasonably profitable way in the interest of all.

There is invested in the oil industry in the United States approximately \$14,000,000,000, which is in excess of all the monetary gold of the world. I have stated that in 1929 the world production was 1,484,000,000 barrels. At \$1.00 a barrel that is about 12 per cent of the world's gold.

The large units are not owned by a few wealthy people. They are owned by millions of stockholders. There is something like \$7,000,000,000 of oil company stocks outstanding, and a little under \$2,000,000,000 in bonds. No one knows how much of this may be up as collateral in banks for bank loans, nor does any one know the amount of bank loans to oil companies, individual oil producers, etc., but

certainly we must know that it is scattered among millions of people, and anything that would bring some stability and value to the industry would be a tremendous relief to the banking situation, particularly in this state. We have very definite evidence of what some promise of stability in industry and banking may mean from the very favorable reaction in the markets in the last two days because of the courageous and constructive steps being taken in Washington by our new President.

I am not willing to plead guilty to the humorous charge of Judge Ames that we are octopi because of how one might interpret the implication.

At the present time The Texas Company, which was organized by citizens of this state, has about 90,000 stockholders of which at the end of this last year over 9,000 are residents of Texas, holding over one-twelfth of the entire stock of the Corporation. No stockholder has as much as 2 per cent. More than one-third of our entire investment is in Texas.

A good deal has been said about "these great monopolies." There was a Standard Oil monopoly, but as you know there are now several different Standard Oil companies. In order to compete it is only natural, proper and desirable, that other units should have grown up to man-size. We have a few Texans who, if they could have their own way about everything, would breed all small cattle, small people and small businesses.

I would like to say this for the Standard Oil companies—that where we have met in competition in practically all of the markets of the world they have, as a rule, been the fairest competition, and while sometimes they have been as mean as Satan, they usually play the game fairly, and are much more to be desired than *some* of the so-called independents and bootleg outfits whose destructive activities constantly receive unwarranted support and encouragement even to the point of supporting organized rackets.

I again appeal to the State of Texas to take a neighborly view of the situation and study carefully the present condition as a neighbor among states and among nations. Any one of you who produces any of these products that go beyond your state lines, or who own stocks or bonds in any company doing business in and out of this state, has a direct interest in world affairs and world conditions. I believe the solution of this petroleum problem lies very largely with you. My Company, as I have stated, has its largest interests here. We are marketing in practically all of the markets of the world and we have no production outside of the United States. Most of our production is in this state, but our interests would be much better served if we

could all restrict and conserve our production in this state to whatever extent would seem to be fair and reasonable by other states and nations; and I am confident that any reasonable sacrifice or restriction by this state would meet with a most gratifying response from producing interests outside of the state and producing countries.

NOTE: *The following added after address was made:*

Very few activities or interests involving more than a very few people can be in all respects a local or state affair alone. When farm relief, unemployment relief, bank relief, become an issue, we inevitably make it a national one and a world one. The disposition in many quarters to frown upon coöperation and condemn all kinds of organized business, particularly that which is in corporate form in order to operate with system and efficiency, is one of the primary causes of the depression. Values have been driven down to points of destruc-

tion and what a contribution this has made to our disastrous banking situation.

According to the National Industrial Conference Board's latest study, banks outside of the Federal Reserve cities and branch cities, known as the country banks, comprise about 95 per cent of the 18,000 banks still open at the beginning of the year, and hold about \$14,000,000,000 of the commercial bank deposits. Market values of bonds, stocks, commodities, real estate, etc., together with other factors, have put this group of so-called country banks on the whole, or on the average, in a condition where they have, on the basis of February market values, lost all of their reserves, all of their surplus and undivided profits, and a very large part of their capital. You can do something about these values, either helpful or harmful, and as a representative of American interests, knowing that insurance policies, homes and prospective earnings have been put up in innumerable instances, as well as future wages pledged in an attempt to hold out until something can be done, you have no choice.

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## Texas Legislative Committee Blames Railroad Commission for Proration Failure

*From the New York Sun, March 22, 1933*

AUSTIN, Tex., March 22.—Severe criticism of the State Railroad Commission for failure to enforce proration of production of crude oil in the east Texas field is uttered in the majority report of the legislative committee which has been conducting an investigation into the oil industry of the State.

The committee discloses that 19 pipe lines, eight loading racks and four refineries have not been making reports to the commission as the law requires and have not been reported to the Attorney-General's department for legal action. Similar lack of action on the part of the commission was found as to 16 refineries and 18 loading racks operating without meters, and 10 pipe lines operating without permits.

The committee says that it found no effort of consequence had been made by the commission to find out where oil shipped out by loading racks was originating. Lack of coöperation with other State departments in enforcing the law was reported. The commission is expressly blamed for the failure of proration enforcement and for allowing 5 per cent of the east Texas operators to demoralize the

others. The committee's report estimated that the State has lost penalties aggregating \$11,600,000 through failure of the commission to enforce orders on the one hand and issuance of invalid orders on the other.

Conditions in the Panhandle field are described as being absurd. The report finds that the field is wide open so far as waste of gas is concerned. It estimates that 300,000,000 cubic feet of gas are being wasted daily with many wells wasting 10,000,000 cubic feet for every barrel of oil produced.

As the legislative report criticizing the State Railroad Commission was being issued a three-judge Federal court made public a decree enjoining the commission from enforcing its January 1 proration order. The commission also was enjoined from resorting to subterfuge for the purpose of circumventing the court's decree by making or promulgating similar orders. The decree was issued in the case of 64 plaintiffs in a suit brought in the name of Peoples Petroleum Producers, Inc.

It is reported that the commission may issue an order within a few days meeting requirements of the Federal court restricting the East Texas field allowable to 325,000 barrels.

## Immediate Action Needed

*Editorial from the Fort Worth Star Telegram,  
March 30, 1933*

THE Legislature of Texas should become aroused to the emergency existing in the oil situation and the crisis that is rapidly approaching. In the huge East Texas field, where the posted price is 50 cents per barrel, it is reported oil can be bought in any quantity desired at 30 cents or less. Such a condition is due entirely to violation of the State's regulations governing production and to oil produced in excess of allowable. From three to five per cent of the operators in that field, interested not in the welfare of the industry nor of the State, but in quick profits for themselves, are wrecking not only the industry of Texas but that of the Nation. And in so doing the land and royalty owners in East Texas are being robbed of thousands of dollars daily, and the State is losing millions annually in tax revenues it would obtain under a fair price for oil.

The blame for the situation rests entirely upon the Texas Railroad Commission. In the first place, it allowed the East Texas field to go too long without effective control. Then, when it did act, it issued a per well basis order that the majority of oil men warned it, at the time, would cause unnecessary drilling, require constant readjustment and provide inequitable distribution as between producers. Its orders have met with a succession of injunctions and counter injunctions, ending in defeat in every instance where the courts have been called upon to pass on them. The result has been that operators disposed to do so have violated the orders at will, knowing that they were invalid and the penalties involved would be wiped out by court decision. The vast majority of operators who have obeyed the orders have been forced to see production taken from them, in many cases, by a violating offset well, or the price for their product lowered by the program of the violators.

The situation has gone from bad to worse for more than two years. It is time to call a halt.

The Legislature can correct the difficulty in short order by taking from the present Railroad Commission the authority to regulate oil and gas production and creating an appointive board for that purpose. It is plain that no other move by the State will suffice. The Railroad Commission has proven a total failure. It has forfeited the confidence of the oil fraternity and of the public. Judging the future by the past, there is no reason to hope for any improvement from it.

It likewise should be evident to the Legislature

that unless the oil producing states do control the situation the Federal Government will. No state wishes to admit either openly or tacitly that it is unable to handle its own affairs. Federal control naturally brings resentment. But where the states refuse or fail to act, there is no other alternative. The present national Administration, that already has done so much toward straightening out some of the nation's most acute problems, can not be expected to sit idly by and see the third greatest industry in the nation wrecked by the actions of less than five per cent of its members, or to countenance the waste of so valuable and irreplaceable a natural resource. There are many ways the Federal Government could assume control. It could give to the Oil Conservation Board the powers of the old war-time Industries Board to fix the total allowable for the Nation and apportion it among the oil producing states. It could put an end to illegal production by requiring that all interstate shipments be legally produced. It might declare an emergency with respect to oil as it did with banking, and take whatever action such emergency required.

Texas should realize that it is the sore spot of the oil industry. Other oil producing states have been more successful in their control than Texas. It is for the Legislature to decide, and the issue before it is whether the crisis shall be averted by prompt and decisive action, by the creation of a new commission, or whether Texas shall admit its failure and let the Federal Government do a job that should be that of the state. But whatever the course, the situation demands immediate action.

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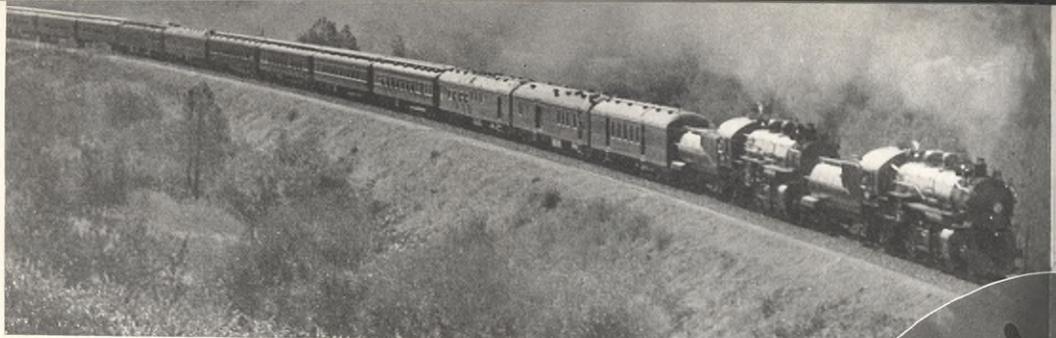
## Ourselves Alone

*Editorial from the Dallas News, March 30, 1933*

THE current developments in East Texas oil lend emphasis to the remarks made by R. C. Holmes of The Texas Company to the Texas House of Representatives earlier this month.

Limitation on oil production, Mr. Holmes said then, must be considered in the light of world figures. The market demand estimate made by the American Petroleum Institute coincides with the world production of 1928. To restrict output to market needs calls for forbearance by all of the oil areas.

In other words, and Mr. Holmes is unquestionably right about it, Texas can not adopt the Sinn Fein motto. If it continues to pour its oil into other world markets the restriction of other states and other countries is of no avail.



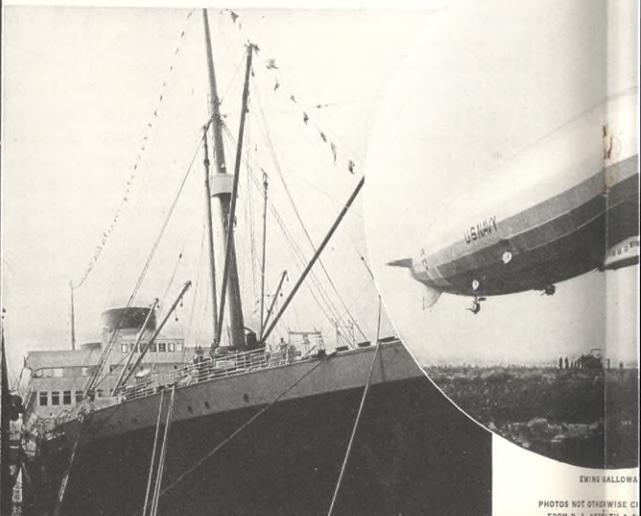
EWING GALLOWAY



SHOOT

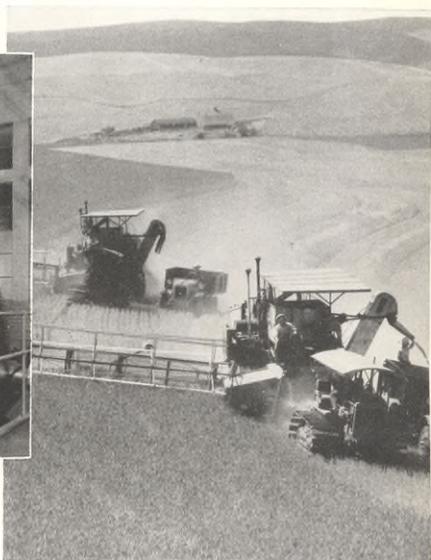
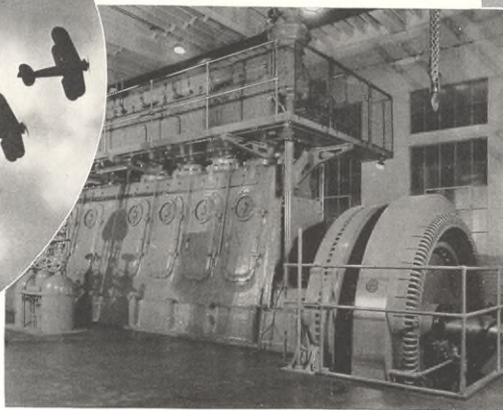
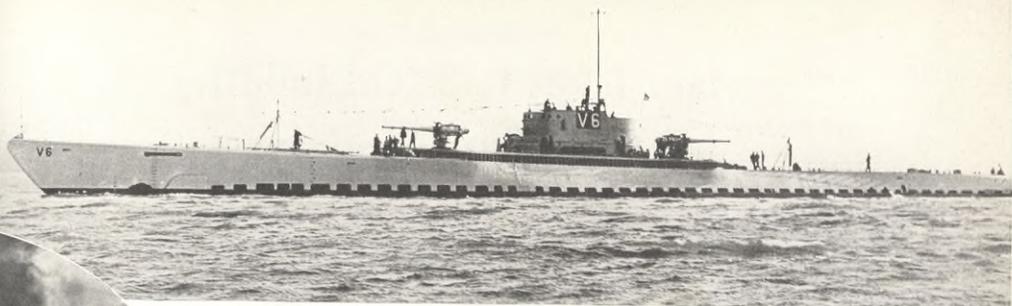
# FUELED WITH OIL-

ALLOWAY

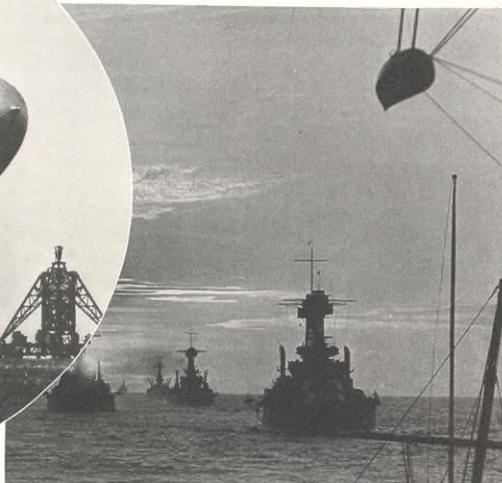


EWING GALLOWAY

PHOTOS NOT OTHERWISE CREDITED  
FROM R. I. HEATH & A



## L-FOR HOW LONG?



# Secretary Ickes Calls Oil Industry Conference

*Asks for "Unselfish, Patriotic Approach" to Problems*

ON MARCH 16, 1933, at the request of President Roosevelt, the Secretary of the Interior called a meeting in Washington of the representatives of the governors of the 17 oil-producing states, for March 27, 1933. At the same time, he asked representatives of the petroleum industry to be in Washington and available for conference.

Secretary Ickes delivered the following address before all those who assembled on the 27th, and then asked each group—the governors' representatives, representatives of the independent oil and gas producing associations, and representatives of the American Petroleum Institute—to retire to separate rooms and each select a committee of five, to comprise a committee of 15 which should make joint suggestions and recommendations to him as to what the Federal Government and the states might do to aid in the solution of the problem.

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*Address by Hon. Harold L. Ickes, Secretary of the Interior,  
at Conference of Governors of Oil States,  
Interior Department, March 27, 1933*

*Gentlemen:*

This conference between the governors of the oil-producing states or their representatives, and officials of the Department of the Interior, has been called for the purpose of determining, if possible, what can properly be done to bring about a greater degree of stabilization in the oil industry. The governors of the interested states were asked to attend personally or to delegate representatives. It was also suggested to responsible leaders of the industry representing the major companies as well as the "independents" that they be present in Washington on the occasion of this conference so that they might be available for consultation.

You gentlemen are, of course, cognizant of the adverse conditions affecting the industry. Widespread tax evasion, the illegal production and irregular distribution of unmarketable production, the failure or inability to enforce existing state statutes—all have had a tendency to break down the legitimate conservation programs of the various states. Evasion of both the Federal and state gasoline taxes has in itself unsettled the market for gasoline, the chief product of petroleum, the country over.

The public is concerned with the necessity for bringing production of crude into balance with the

market demand for petroleum products. If this balance can be attained, stabilization will follow, with protection to royalty owners, land owners, the consuming public, and manufacturing and marketing agencies.

The present condition of the industry is due primarily to lack of observance of the oil conservation laws in effect in the larger oil-producing states. Failure by a minority in the industry to cooperate for the betterment of conditions by refusing to purchase or transport oil illegally produced has also contributed serious problems. It is my understanding that the oil produced and run illegally over and above the official figures reported is variously estimated at from 100,000 to 400,000 barrels per day, which means that this amount of crude oil is being produced in excess of market or national requirements. This condition, coupled with the gradually decreasing demand for petroleum products, has served to aggravate the effect of excess production.

It has been suggested that the Federal Government should cooperate with the oil-producing states to bring about uniform production not in excess of 2,000,000 barrels of crude per day for the United States during the remainder of the present year, and that equitable allocation of this total be fixed definitely as between the various states and the individual pools therein. Acceptance of this production figure, I am advised, would approximately bring production and consumption into balance for the immediate future.

Conditions affecting imports and exports would seem to require additional study at this time by the industry. There has recently been an increase in the importation of crude and refined oil in sharp contrast to the decline of imports registered when the excise tax was imposed.

Every one knows that it is utter folly to produce oil unless there is a market for it, and that to produce largely in excess of consumption requirements is worse than folly. Every one knows, too, that oil produced in violation of the laws and regulations made pursuant thereto should not be run by pipe lines, railroads or other transportation agencies, or received into pipe lines at any point, and, further, that such unlawfully produced oil should not be

## The TEXACO STAR

purchased. Industry leaders should make every effort to assist enforcement agencies to the end that no individual or unit identified with the industry can evade or circumvent enforcement efforts.

Destructive influences and clashing interests are bringing the oil industry, ranking among the great industries of the country, to its knees. The state and Federal governments are receiving diminished returns in taxes; the land owner is receiving reduced royalties; owners and operators of 300,000-odd wells in the United States are operating under conditions which, if not corrected, ultimately will lead to the abandonment of these wells, for the price of crude oil paid to the producer is below cost of production in many areas. The refiner and marketer who evades taxation is, as the result of unfair competition, undermining the capital structure of the entire industry.

What is needed most at this time is a display of sound sense and a readjustment of practices that will give to those engaged in the industry an opportunity for profitable operation of their business.

The conference is dealing with a great and most essential natural resource, limited in quantity by nature, which is dwindling from day to day because of unscientific management, with no present necessity for surplus production, as above-ground supply already is in excess of an economic stock level. Petroleum is being consumed at the rate of approximately 300,000,000 barrels per annum, and it must be remembered that this oil can not be either re-produced or indefinitely replenished. With the passing of time, this most valuable and necessary resource must inevitably reach a stage of practical exhaustion, at least so far as any practical use is concerned.

In all human probability, the production of this limited supply of petroleum has reached or nearly reached its peak. Oil has been squandered for some years past and still is being squandered at a riotous rate by the reckless and improvident methods of capture and by ruthless dissipation of the energy of the natural gas dissolved in the oil in its natural state beneath the surface. We must not lose sight of the fact that the oil now being produced and likely to be produced in the future is essential to our national defense and general welfare.

During the past few years new oil fields of large producing capacity have deluged the market with so great a supply that petroleum has been forced into keen and violent competition with coal. The result is that probably one-half of America's oil production is being used to displace the equally effective use of coal, of which there is an almost inexhaustible supply. The waste of natural gas

incident to the past and present methods of capturing oil at the surface is prodigal and extravagant. This waste is quite reliably estimated to be equivalent in value and effectiveness to a very large percentage of all the petroleum actually subjected to control and ownership.

Rivalry in production from flush pools arises principally out of the fact that oil in the sands beneath the surface and the natural gas associated with it are migratory in character, and the general rule of law that there is no absolute title in either until capture and control at the surface. The incentive thus given to production has resulted in a promiscuous drilling of unnecessary, rival, and wasteful wells; a sheer waste of a very large part of the associated gas, greatly lessening the amount of oil that can be ultimately recovered by flowing and pumping; and the waste of large quantities of the oil itself because of inability either properly to store or quickly market it.

The supply of the future is and must be limited to resources yet undiscovered, because the reserve outside of the fields now being exhaustively drawn upon is comparatively negligible when we measure time by the yardstick of a few years.

The rapid exploitation and depletion of new fields can not be controlled or even checked under existing conditions of private surface ownership with its resulting insensate rivalry in acquiring title to the oil at the surface, unless and until some competent superior authority assumes actual and positive control and exercises sane regulatory power, consonant with an intelligent public policy.

If the country continues to produce and consume petroleum improvidently and extravagantly, as it has been doing, without regard to the character or quantity of the resource or the uses to which it should be put, the result will be that at a comparatively early period we will find our oil resources so seriously curtailed as to affect adversely the standard of living of the American people.

It has frequently been asserted that the Federal Government is without power to control or even regulate the production of petroleum from privately owned lands, except in case of drainage from Government lands. But it is by no means certain that the people of the United States are helpless to prevent the reckless dissipation of an indispensable natural resource. The states can, of course, under their reserved police power, respectively regulate and control the capture of petroleum within their respective territories to any extent which will prevent waste and loss of oil, and also natural gas, and in aid of such purpose can prevent owners of surface rights from drawing oil in a manner wasteful

of the oil and gas beneath the surface of other owners.

For two years proration of production in the major mid-continent fields has been in operation. State regulatory bodies and industry leaders have sought in vain for a balancing of supply and demand. During this period there has been an up-building of "potentials," price has turned downward, production upward, and bootlegging of illicit oil has flourished. The whole price structure has collapsed. Out of this maze of confusion and conflicting interests must come a means of control or limitation of production that will assure a continuing, adequate domestic supply of oil that will not and must not exceed actual consumption requirements. Only by this means can the industry right itself.

Fourteen billion dollars constitutes the capital investment of the petroleum industry. A million and

a half of stock and bond holders and royalty owners have a common interest in its proper conduct. A million and a quarter presently employed workers keep this vast business alive—and themselves too. The first concern of the recognized leaders of an industry so essential to our industrial needs and our happiness and well-being as a people should be the adoption of principles and practices that will with certainty prevent the unnecessary depletion of a limited natural resource, vital to the nation, in which 130,000,000 Americans have a vested interest.

The solution of this problem is in your hands. And the problem, difficult and complex as it is, can be immediately solved if we all approach it unselfishly and patriotically. It ought to be an incentive to a determination to solve it to realize that its happy solution will be for the best interests of both the oil industry and the country.

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## Oil Industry Recommends Federal Government Action to Secretary Ickes

### *Committee of Fifteen Asks National Intervention in Petroleum Crisis*

Washington, D. C.,  
March 29, 1933

The Honorable  
The Secretary of the Interior  
*Dear Mr. Secretary:*

The three committees respectively representing (1) The governors of the oil producing states or their duly authorized delegates; (2) the oil and gas associations representing independent producers of oil and gas in the United States, and (3) the major oil and gas producing and importing companies, after conferring together, have unanimously agreed to recommend the following program to you, in order to meet the existing emergency in the oil and gas industry and to provide the basis for conservation and scientific future development of the oil and gas resources of our country:

A. To meet the existing emergency, the committees unanimously recommend:

1. That the President of the United States be requested to transmit this report to the Governors of California, Kansas, Oklahoma, Texas and New Mexico, and to call upon them immediately to close all flush pools in their respective States until the 15th day of April next, excepting wells

producing more than 10 per cent of water, which would be damaged irreparably by a complete shutdown.

2. That the President of the United States be requested to call upon the governors and legislatures of the principal oil-producing states which have no adequate or no general conservancy statute to adopt such a statute immediately in order to further the conservation and scientific and more orderly development of the oil and gas resources of such states and in order to enable full coöperation toward these ends between all the principal producing states.

3. That the President of the United States be requested immediately to recommend to Congress the adoption of a law prohibiting the transportation in interstate and foreign commerce of any oil or the products thereof produced or manufactured in any state in violation of the laws thereof, and providing adequate penalties for violations of the said law.

4. That the President of the United States be requested (a) to require strict enforcement of the Federal gasoline tax and pipe line tax and vigorous prosecution of evaders thereof, so long as

## The TEXACO STAR

the said taxes remain in effect, and (b) to instruct the Bureau of Internal Revenue to ascertain at the time of collecting the tax, the consignor, consignee, destination and quantity being shipped by each refinery, and (c) to instruct the said Bureau to transmit the said information to the tax collecting authorities of those States into which the gasoline is to be moved.

5. That the President of the United States be requested fully to endorse the recommendations made herein and to appeal to the states, and to all those engaged in the oil and gas industry, faithfully to cooperate in the enforcement and observance of the said recommendations and in the limitation of production in harmony with a fair allocation of the national consumptive demand.

6. We further recommend that the President submit to Congress a request for emergency legislation authorizing him to appoint a personal representative to cooperate with the duly constituted authorities of the several oil producing states in bringing about a compliance on the part of said states with the program covered by these recommendations, and to advise and cooperate with the industry in complying with that portion of the program recommended for action by the industry; such act of Congress to be effective during the emergency only, and whenever in the opinion of the President of the United States the emergency in the oil industry has passed, thereupon, by proclamation, the President may declare the emergency ended and the office, thereby created, abolished.

B. To provide a basis for conservation of the oil and gas resources of the United States and the scientific future development of the oil and gas industry therein, the committees are unanimously of the opinion:

1. That the Government of the United States can aid and assist in the following aspects:

(a) By initiating a comprehensive and scientific study of the entire subject and publishing, as soon as possible, a report of the facts found, conclusions reached and recommendations made with reference thereto.

(b) By imposing an adequate competitive tariff on crude petroleum and the products thereof.

(c) By eliminating the tax on domestic refined products and the Federal pipe line tax.

(d) By vigorous prosecution for evasion of the Federal gasoline tax and pipe line tax if such taxes are to be continued.

(e) By permitting drilling on the public lands to be delayed.

(f) By limiting imports to the average for the last six months of 1932.

(g) By continuing the Federal Oil Conservation Board as an advisory body.

2. That the producing states can aid and assist in the following respects:

(a) By the enactment, where necessary, of adequate state laws under which conservation can be enforced.

(b) By the issuance of valid orders under such conservation statutes.

(c) By strict enforcement of the orders issued.

(d) By the equitable allocation of the allowed production as between pools.

(e) By limiting production of crude oil to the requirements of the consumer of refined products, or crude petroleum as such.

(f) By reaching an agreement with each other on the total market demand for crude petroleum and a proper allocation of this demand as between the producing states.

Note: Pending a more complete study of the subject, the production in the United States should for the time being be limited to 2,000,000 barrels per day, allocated as follows:

|                  |         |         |
|------------------|---------|---------|
| Texas            | 786,242 | Barrels |
| Oklahoma         | 417,690 | "       |
| Kansas           | 93,366  | "       |
| California       | 432,432 | "       |
| All other states | 270,270 | "       |

(g) By rigidly enforcing the gasoline tax laws so as to prevent tax evasion, by preventing the diversion of the tax from highway uses, and by a reduction of the tax wherever at all possible.

(h) By encouraging permissive unit operation under voluntary agreements.

3. That the industry can aid and assist in the following respects:

(a) By actively supporting governmental agencies in their efforts to make and enforce valid orders.

(b) By refraining from producing oil unlawfully and refusing to transport or purchase oil unlawfully produced.

(c) By marketing arrangements with limited areas conforming to the principle announced by the Supreme Court in the Appalachian Coals case.

(d) By diligent efforts to promote permissive unit operation under voluntary agreements.

(e) By avoiding excessive withdrawals from storage.

## The TEXACO STAR

(f) By limiting drilling to the absolute minimum.

(g) By limiting imports to the average for the last six months of 1932.

C. If the foregoing conservation program is to succeed, the committees respectfully submit that it must be based on a price for crude oil which will allow a margin of profit to the producer and a price for the refined products which will allow a margin of profit for the refinery and the retail dealer.

Respectfully submitted,

W. J. Brundred Alfred M. Landon, Chairman—(Kansas)  
 W. N. Davis Wm. H. Cooley (California)  
 Wirt Franklin I. C. Grimm (Ohio)  
 Chas. F. Roeser C. C. McDonald (Texas)  
 C. B. Ames Cicero I. Murray (Oklahoma)  
 R. C. Holmes T. H. Barton  
 K. R. Kingsbury *Committee of Fifteen*  
 D. J. Moran *representing Governors' Conference, and*  
 W. C. Teagle *major and independent oil producers.*

|  |             |
|--|-------------|
| California Oil & Gas Association                                 | Not Voting  |
| Central Penn. District Oil & Gas Association                     | Yes         |
| East Texas Land Association                                      | Yes         |
| East Texas Producers & Royalty Owners Association                | Yes         |
| General Mid-Continent Oil & Gas Association                      | Yes         |
| Independent Petroleum Association of America                     | Yes         |
| Independent Petroleum Association of Arkansas                    | Yes         |
| Independent Petroleum Association of California                  | Not Present |
| Independent Petroleum Association of Texas                       | No          |
| Mid-Continent Oil & Gas Association, Kansas-Oklahoma Division    | Yes         |
| Mid-Continent Oil & Gas Association, Louisiana-Arkansas Division | Yes         |
| Mid-Continent Oil & Gas Association, Texas Division              | Yes         |
| North Texas Oil & Gas Association                                | Yes         |
| Oil Producers Sales Agency of California                         | Yes         |
| Southeastern Ohio Oil & Gas Association                          | Yes         |
| Texas Oil & Gas Conservation Association                         | Yes         |
| West Central Texas Oil & Gas Association                         | Yes         |
| West Virginia Oil & Gas Association                              | Yes         |
| Middle District Producers Association (Penn.)                    | Yes         |
| American Petroleum Institute                                     | Yes         |

On Monday morning, March 27, 1933, before the organization of the said Committees and before the emergency measures recommended in subdivision A hereof were proposed, the representatives of oil and gas associations adopted, in meeting assembled, the principles and recommendations covered by subdivisions B and C hereof. The vote was as follows:\*

\*The membership of the oil industry associations represented in the recommendations above comprises a total of 20,284.

In addition to this, there are two of the associations voting "Yes" of which we do not at this writing have information as to their total membership.

## Independents(?) Deny Overproduction

### Declare Oil Industry is Healthy But Ask Cure of "Certain Ills"

Washington, D. C.  
 March 29, 1933

Honorable Harold Ickes,  
 Secretary of the Interior, Washington, D. C.

My dear Sir:

The petroleum industry of the United States is in a more healthy condition than industry generally. It suffers, however, from certain ills, chief among which are monopolistic control, agreements in restraint of trade, price-fixing agreements, unfair practices, burdensome taxation, false propaganda and excessive governmental regulation.

There is no overproduction of petroleum in the United States today.

True conservation of petroleum resources is desired. The duty and right of conserving the petroleum resources is a function of government exclusively vested in the several sovereign states. It can only be done through a reasonable exercise of the police power which was reserved to the states and never delegated to the National Government.

To the end that a more wholesome condition of

the industry, with the resultant good to the American people, may be brought about, we respectfully recommend the speedy accomplishment of the following definite measures of relief:

1. That appropriate action be taken to require the Interstate Commerce Commission to fix and enforce fair and reasonable rates to be charged by pipe line common carriers engaged in the transportation of petroleum in interstate commerce.

2. The enactment of emergency legislation by Congress, divorcing oil pipe lines engaged in interstate commerce from other branches of the oil industry.

3. That the Department of Justice be required immediately to investigate and vigorously prosecute violations of the anti-trust laws to the end that combinations and agreements in restraint of trade, price fixing and other unfair practices affecting the petroleum industry may be effectively stopped.

4. The immediate enactment of laws by Congress making it unlawful for any person, firm or corporation willfully to disseminate false information designed to influence public opinion.

5. That the Federal Oil Conservation Board be abolished.

6. That the American producer not only be permitted to, but be assisted by the agencies of the government, in capturing all of the world market for petroleum and its products possible.

7. That American oil companies be discouraged in the present practice of developing unregulated and uncontrolled foreign oil fields with cheap foreign labor which compete with regulated and controlled American production.

8. That Congress protect the American market from the importation of foreign oils by the imposition of a competitive tariff.

9. That the Federal Government respect and not infringe upon the rights and duties of the sovereign states to regulate the production of petroleum within their respective borders.

*Respectfully submitted,*

INDEPENDENT PETROLEUM ASSOCIATION  
OPPOSED TO MONOPOLY

NOTE: There is no evidence available to indicate that if this is an expression of independents, it is representative of as much as one-half of one per cent of the oil producers or others engaged in the oil business.—EDITOR.

## “John B. Elliott Sees ‘New Deal’ for Oil Industry”

*From the Los Angeles Examiner, April 4, 1933*

GRATIFIED that “the rout of the petroleum monopoly is complete,” John B. Elliott, Chairman of the Executive Committee of the Independent Petroleum Association of California, yesterday, predicted a “new deal” for the nation’s oil industry.

In a telegram received here from Washington, where he led the independents’ fight at the oil conference, Elliott stated that the alleged trust’s Federal program has been utterly defeated.

“Caught red-handed and exposed in their effort to falsify Government records on production and consumption and to deceive the nation with bogus figures and imitation Government conferences, the petroleum buccaneers of 1933 have been publicly downed,” the message said.

“The rout of the monopoly is complete. There will be no Federal oil czar, no holiday shut-down of production, no Federal oil conservation board, no dictation to the states in favor of monopoly and, in fact, nothing of their whole program.

“Out of the rout of monopoly is coming real legislation for the separation of oil pipe lines and perhaps service stations from the production and refinery units; the enforcement of reasonable pipe

line rates and regulation by the Interstate Commerce Commission.”

### WHAT DOES IT REPRESENT?

★ It is seriously doubted that the person referred to above, “John B. Elliott, as Chairman of the Executive Committee of the Independent Petroleum Association of California,” and self-styled “Representative of the Independent Petroleum Association Opposed to Monopoly,” directly represents one-tenth of one per cent of the producers, the refiners, the marketers, or any other petroleum interests in the United States.

The charge that any one in the Government offices in Washington falsified the petroleum records will not be believed by any one. There could be no object or motive in any such activity, on the part of the Government or of industry representatives.

When he speaks of a monopoly, he is speaking of an industry as highly competitive as it is possible for any industry to be. There are in excess of 5,000 producing companies, besides many thousands of individual producers; over 300 refining companies, and in excess of 25,000 separate marketing units selling petroleum products. Every one who really knows anything about the oil business knows that competition is as keen between the Standard Oil companies themselves, and between them and the other units, as it is between the so called independent units.

On the matter of pipe lines he also speaks without knowledge of the subject, and without consideration of the best interests not only of those who have built and operate the lines, but of the producers as a whole, large and small.

According to the Interstate Commerce Commission, there are over 50 pipe line companies reporting to that body, exclusive of many small lines, including some 50-odd small systems recently grown up in East Texas between the fields and the railroads, and between the fields and the 52 or 53 refineries newly built in that vicinity.

None of the larger integrated companies would be secure in their current daily supplies of crude without these facilities leading into the fields where they have their production, where they buy, and where they afford a market to those who produce but have no refining or marketing outlets. Some 20 of these larger companies with pipe line facilities buy over 1,000,000 barrels of crude oil per day, in addition to what they produce direct and through their subsidiary and associated interests. Why, at this time, or at any time, tear down established, orderly business?

There are worse-smelling animals than cod fish and garlic.

UNIVERSITY OF HOUSTON

# Telegram from R. C. Holmes to President Roosevelt

New York, N. Y., April 2, 1933.

To The President of the United States,  
The White House, Washington, D. C.

So far as I know, and I think I have reasonably accurate information, at least 95 per cent of the legitimate individual producers, producing organizations, and producer-buyer and refining units, were represented by the joint committees of industry representatives and of the governors of 15 of the oil producing states in the joint recommendation made to Secretary of the Interior Ickes on March 29 STOP

Are we going to allow a part of the press, with misinformation or lack of full information, and a few uninformed, misguided politicians to ruin the oil industry and perpetuate a scandal that makes the oil scandals of the Harding Administration look like petty graft and larceny? STOP

When we find enforcement officers co-conspiring, aiding and abetting the crime, it seems to me it is time that the legitimate industry be listened to STOP

This lawless element if allowed to operate a little longer will complete the destruction of the oil industry here and abroad and put the last murderous knife thrusts into the banking situation STOP We have already during the past few years, through selfishness, lack of proper organization and coöperation between the Federal and state governments and the industry, practically ruined the coal industry, notwithstanding the fact that every oil-producing state except two is directly interested in the coal industry STOP

During these conferences in Washington in the last few days, the illegal production of oil in Texas and Oklahoma alone exceeded the entire production of the States of New Mexico, Colorado, Wyoming, Montana, Kansas, Illinois, Indiana, Ohio, Michigan, Kentucky, West Virginia, Pennsylvania and New York STOP

On March 2 the House of Representatives at Austin, Texas, passed a resolution without a dissenting vote from which I quote as follows

QUOTE We respectfully urge all purchasers of crude oil throughout the United States to come to the relief of the State and raise the price of crude oil to such price that the industry may survive UNQUOTE

Because of the conditions existing, if The Texas Company had gotten all of its crude oil at the wells for nothing during the months of January and February of this year, it would still have failed to make an earning, and this I think is the condition in many other units STOP

We have an import duty to protect the American oil industry STOP Today illegal oil is nullifying the effect of any import duty that could be assessed and at the same time is destructive to the American interests in Canada, Europe and elsewhere STOP

In spite of this condition the industry has not applied to the Reconstruction Finance Corporation for financial relief. We have asked for the things only to which we are clearly entitled in the interest of the industry as a whole, the stockholders, employes and other dependents STOP

*First:* The honest application and enforcement of the Federal and state gasoline tax laws on all alike without exception;

*Second:* The enforcement of the conservation laws on all alike without exception;

*Third:* The enactment only of such Federal and state legislation as will insure this being done as equitably to all interests as is practical;

*Fourth:* That such machinery of government, Federal and state, be set up as will provide for the above, not only now but in the future, hoping that in so doing we can have some real effective conservation of this great natural resource, petroleum, and realization of economies and values STOP

The racketeering of this age is a disgrace to the country and will be the ruination of all legitimate industry if it is not stopped STOP

There is much that the industry, itself, should have done in the past, and should and can do now, but it is hopeless without the support that we have asked for STOP

Facts should be secured and sound policies and corrective measures undertaken STOP

We have great faith in your fairness and we await your judgment STOP

I am giving copy to all State Governors and members of the Federal Congress

Respectfully yours,

R. C. HOLMES,

President, The Texas Company

# Text of President Roosevelt's Letter

## To Governors of 17 Oil-Producing States

### April 4, 1933

My Dear Governor:

I am sending you herewith for your consideration a report submitted to the Secretary of the Interior as the result of a three days' conference held in Washington the early part of this week on the oil situation and participated in by representatives of the governors of 17 of the oil producing states.

There were also present at the conference representatives of the independents in the industry as well as of the major oil and gas producing agencies. The main report was drafted and unanimously adopted by a committee of 15, composed in equal parts of representatives of the governors, of the major oil industries and of the independents. When this report was finally submitted to the full conference it received the affirmative votes of all the representatives of the governors and of those representatives of the oil industries voting as set forth on page four of the report.

Together with the majority report just referred to, I inclose also for your information, a minority report adopted by a group of independents and subscribed by them in the name of "Independent Petroleum Association Opposed to Monopoly."

I further inclose a resolution adopted by the representatives of the governors after the main report already referred to had been ratified.

To complete the record, I am sending also a final correction to the recommendations made by the committee of 15, which was handed to the Secretary of the Interior yesterday.

I especially direct your attention to Paragraphs A-1 and A-2 of the recommendations of the committee of 15. It is obvious that the action proposed to be taken in these paragraphs is within the sole authority and jurisdiction of the interested states. The President of the United States has no authority to declare a moratorium such as is proposed and he might be regarded as infringing on the sovereignty of the states if he should make the suggestion contained in Paragraph A-2.

There seems to be a widespread feeling that an emergency exists in the oil industry calling for action, and it is hoped that the governors of the states affected, after consultation with each other, will take action appropriate to meet it.

The committee of 15 in Paragraphs A-3 and A-4 recommend certain action on the part of the Federal Government. I am of the opinion that the sugges-

tion that the Congress pass legislation prohibiting the transportation in interstate and foreign commerce of any oil or the products thereof produced or manufactured in any state in violation of the laws thereof is well considered. I am prepared to recommend such legislation to Congress as a contribution on the part of the National Government toward the solution of the difficulties in which the oil industry finds itself.

I also approve of the recommendation in Paragraph A-4 of this report.

The report of the Independent Petroleum Association Opposed to Monopoly recommends "The enactment of emergency legislation by Congress divorcing oil pipe lines engaged in interstate commerce from other branches of the oil industry." I am of the opinion that this is a reasonable request and that such legislation should be enacted at as early a date as possible.

There are other suggestions and recommendations made to the Secretary of the Interior as a result of the deliberations of the oil conference that on their face are fair and reasonable but which do not require immediate action. These recommendations can be taken up at a later date, perhaps after further conferences between the representatives of the states and of the industry and of the National Government.

Very sincerely yours,  
FRANKLIN D. ROOSEVELT

## Mr. Holmes "Disappointed" in President's Pipe Line Recommendations

*From The New York Times, April 6, 1933*

WHILE President Roosevelt's statement on the oil industry was "a very satisfactory reaction to the industry's request," R. C. Holmes, president of The Texas Corporation, said yesterday he personally felt some disappointment that the President had not asked for some authority that would "enable the states and the Federal Government to work more closely together, in the most effective way, to accomplish some real conservation of

petroleum." Mr. Holmes said he was particularly disappointed in the President's recommendation that the established system of pipe lines should be divorced from the integrated units of the industry.

"No pipe line system, in my judgment," Mr. Holmes continued, "without the large production, the large buying power, the large storage capacity, and the established market outlets directly connected with them, or in the hands of those who have the necessary conditions for the economical operation of pipe lines, will be a successful investment, or will in any way improve conditions for the smaller producers or others. I do not know, however, exactly what is in mind in the way of divorcement.

"Possibly any such action would contemplate a reduction in rates, if it makes any changes at all, and that certainly would be of no aid to the railroads or to any one else, particularly in the Mid-Continent area. It will narrow up the territory into which the railroads now carry refined products in the Mid-Continent. It would exclude the Mid-Continent and inland refiners from foreign markets for the refined products they ship to the coast by car. In short, the whole effect would be to limit the territory to which the inland refiners can reach, with no benefits, as I can see it, to any one.

"I doubt that the President or his assistants have had the time or opportunity to read the Splawn report which, within the last two or three weeks, was submitted to the House of Representatives by its Committee on Interstate and Foreign Commerce, apparently after careful investigation and study by unprejudiced, competent Federal authorities.

"Oil pipe lines, the report found, are 'plant facilities in an integrated industry.' Carrying but one commodity, in one direction, and that from a diminishing source of supply, oil pipe lines differ so radically from railroads that, says the report, 'it appears very difficult' to apply to them that provision of the Federal law prohibiting railroad companies from transporting in interstate commerce products either manufactured, mined or produced or owned by the railroad, or in which the railroad may have an interest.

"If the oil companies were forced to sell the pipe line companies, who, asks the report, 'would buy them and who would build to newly-discovered oil fields?'

"Dr. W. M. W. Splawn, special counsel for the subcommittee which issued the report in question, said, in connection with that report: 'Divorcement of pipe lines from the oil industry does not appear practicable because they are part of the plant facilities of that integrated and competitive industry.'"

## Editorial Comment on Mr. Holmes' Telegram

*From the Tulsa World and the Tulsa Tribune, April 3, 1933:*

"In his scathing remarks on the menace of greed, corruption, and lawlessness afflicting the oil industry, R. C. Holmes of The Texas Company did a national service of a high order. It was time for some authoritative voice to be heard, and the Holmes telegram to President Roosevelt expressed the situation clearly and concisely. . . .

"The Holmes telegram was a reaction from the recent oil conference in Washington and the breakdown of proration in the two big southwestern oil states. . . . The existence of at least two stalwart groups in the oil business cannot be doubted. There is one large group favoring proration. The other group is contrary to the whole proration idea and wishes the fewest possible restrictions. It is obviously impossible to please both elements."

*From the California Oil World, April 6, 1933:*

"One outstanding feature of the whole business [the Washington oil conference] was the resounding approval of the California industry to the appeal sounded by R. C. Holmes, President of The Texas Corporation, to President Roosevelt. This appeal warned the chief executive that a 'lawless element' threatens to 'complete the destruction of the oil industry.'"

*From the Indianapolis Star, April 7, 1933:*

"The head of a leading oil producing company has protested to President Roosevelt against what he terms the 'lawless element' that is playing havoc with profitable operations in the field. . . . Unless checked, the oil executive declared, the minority of producers and distributors will wreck the industry."

*From the Oil and Gas Journal, April 6, 1933:*

"The oil industry had an unexampled opportunity before, during, and after the oil conference at Washington to get its case before the public. . . .

"Even had affirmative action followed immediately upon the adoption of the resolutions by the conference there was all the more need for live handling of publicity on behalf of the program such as the telegram of President R. C. Holmes of The Texas Company given to the press for Monday morning. . . .

"Today, more than ever, the industry needs to get out in the open and win public understanding for constructive policies and against those which would be solely destructive."

# TRANSPORTATION—Rail—Motor

By HARRY T. KLEIN  
General Counsel, The Texas Company

DURING the past three months there have been three outstanding developments of national importance in the field of transportation:

1. January 30, 1933: Recommendations of Joint Committee of Railroads and Highway Users;
2. February 13, 1933: Report of the National Transportation Committee; and
3. The railroads' national legislative campaign against motor highway transportation.

## I. JOINT RECOMMENDATIONS

### *Declaration of Policy.*

"The public is entitled to the benefit of the most economical and efficient means of transportation by any instrumentalities of transportation which may be suited to such purpose, and no legislation should be enacted which has for its purpose the stifling of any legitimate form of transportation. The supreme test must always be the interest of the public. The public's right to the selection of the agency of transportation which it wants and which it finds most useful must be respected."

THIS DECLARATION prefaces the recommendations of a Joint Committee of Railway Executives and Highway Users, dated January 30, 1933. The appointment of this Joint Committee in October, 1932, arose out of conferences among various railroad executives and important shippers, and the committee was organized for the purpose of considering railroad and highway transportation problems.

The railroads were represented on this committee by six outstanding railroad executives of the country—all representatives of Class A railroads. Mr. W. W. Atterbury, President of the Pennsylvania Railroad, acted as Chairman of the Railway Executives' representatives.

The Highway Users were represented by six executives of the most important industries and associations interested in highway transportation. Mr. Alfred H. Swayne, Vice-President of the General Motors Corporation, acted as Chairman of the Highway Users' representatives, and Mr. R. C.

Holmes, President of The Texas Company, was one of the Highway Users' representatives. William J. Cunningham, Professor of Transportation of the Graduate School of Business Administration, Harvard University, acted as executive secretary of the Joint Committee.

In promulgating their recommendations, the Joint Committee stated that they regarded the achievements of the report, after

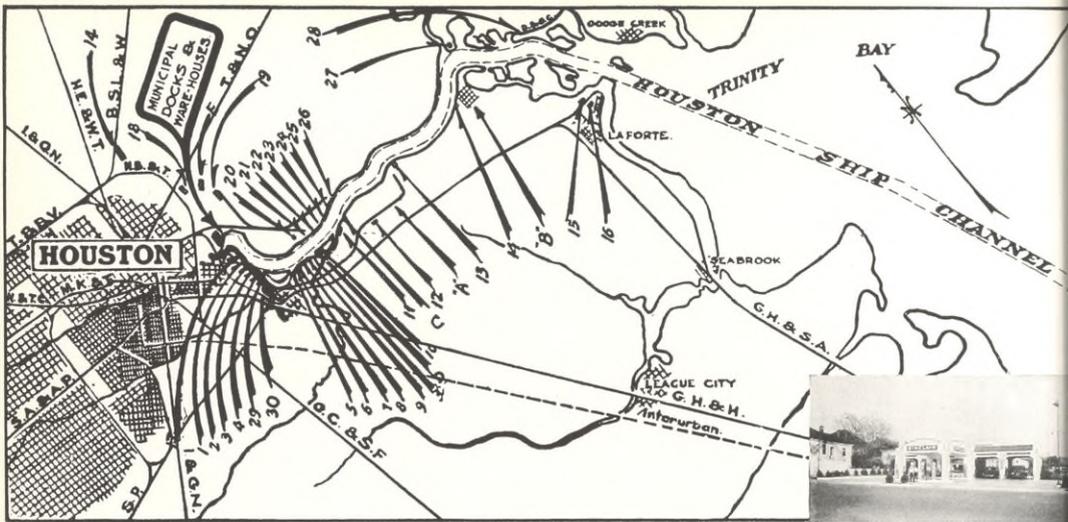
three months of intensive study and discussion, as a distinct step forward in the development of a sound public transportation policy—believing that it was wiser that economic problems should be solved by conference rather than by legislation; and that the conferences of the Committee had grown out of a mutual appreciation of the need for a rational appraisal of the relations between rail and highway transportation in the light of the broad public interests involved in the use of these facilities.

The body of this report is composed of 78 paragraphs (with additional explanatory notes), the first 52 of which, after the three paragraphs contained in the Declaration of Policy, are devoted principally to the regulation of common and contract carriers, in interstate and intrastate commerce. The railroads and highway users were not in accord on the subject of regulation. The railroads advocated:

(a) As to common carrier trucks, that adequate requirements should be imposed upon them to insure just and reasonable rates, with provision for publication thereof and adherence thereto and proper inhibition against undue discrimination, and

(b) that contract carriers should be required to observe minimum rates fixed by regulatory authority and comply with rules and practices applying to rates and services as may be prescribed by such authority.

To both of these proposals the highway users appended the condition: "if and when sufficient



THE ABOVE MAP WAS FORMERLY USED ON STATIONERY OF THE HOUSTON CHAMBER OF COMMERCE

- |                                   |                                     |                                    |
|-----------------------------------|-------------------------------------|------------------------------------|
| 1 TEX-CUBAN MOLASSES CO.          | 13 CROWN OIL & REFINING CO.         | 25 TEXAS COMPANY                   |
| 2 ARMOUR FERTILIZER WORKS         | 14 HOUSTON COMPRESS CO.             | 26 GALENA SIGNAL OIL CO. OF TEXAS  |
| 3 CHANNEL FUEL CO.                | 15 LA PORTE OIL & REFINING CO.      | 27 GULF PIPE LINE CO.              |
| 4 ALEXANDER SPIRIT & SON          | 16 PA-TEX PETROLEUM CO.             | 28 HUMBLE OIL & REFINING CO.       |
| 5 TEXAS CHEMICAL CO.              | 17 HOUSTON OIL TERMINAL CO.         | 29 WELD-NEVILLE OIL & REFINING CO. |
| 6 DEEPWATER OIL REFINERIES        | 18 SOUTHERN MOTORS MFG. ASSN.       | A MUNICIPAL BELT RY.               |
| 7 MAGNOLIA PETROLEUM CO.          | 19 HOUSTON OIL REFINERY             | B SAN JACINTO BATTLE GROUND        |
| 8 TEXAS PORTLAND CEMENT CO.       | 20 FIDELITY CHEMICAL CO.            | C HOUSTON LIGHTING & POWER CO.     |
| 9 HOUSTON MILL & ELEVATOR CO.     | 21 SO. PACIFIC R. R. DOCKS—PROPOSED | D MANCHESTER PUBLIC WHARF          |
| 10 CLINTON SHIP YARD              | 22 CLINTON COMPRESS                 | E TEXAS CARTRIDGE CO.              |
| 11 SINCLAIR REFINING CO.          | 23 CLARION OIL CO.                  |                                    |
| 12 GREAT LAKES & WESTERN REF. CO. | 24 KEEN & WOOLF OIL CO.             |                                    |

## “WHERE 17 RAILROADS MEET THE SEA”

—WHY?

Lack of coöperation *permitted by law*.

**Result:** Excessive investments, excessive maintenance and operating costs.  
*Excessive taxes.*



## 738 GASOLINE STATIONS IN HOUSTON

—WHY?

Misinterpretation of original intent and purpose of anti-trust laws.

Coöperation *prohibited by law*.

Intensive, forced competition and actual encouragement of destructive competition.

**Result:** Excessive investment, excessive maintenance and operating costs.  
*Excessive taxes.*



## The TEXACO STAR

data have been collected to indicate the desirability of such regulation in public interest."

It was agreed that private passenger vehicles and private carriers of property generally should be subjected only to the requirements of state registration and police regulation.

The Committee was in accord that railroads should have the opportunity to engage either directly or through subsidiaries in motor vehicle services on the highways on equal terms with other carriers and that the railroads should be relieved of the expense of grade crossing eliminations.

Much time and study were devoted to the subject of taxation. It was agreed that the motor vehicle should pay the entire cost of the state highway system and should also pay a part of the cost of county and/or township highways. At most of the conferences the railroads contended that in addition to registration fees and gasoline taxes, truck and bus users of the highway should also pay a ton mile or mileage taxes. The railroads finally withdrew their demand for a ton mile or mileage taxes, and the recommendation of the Joint Committee as incorporated in its final report is that highway users should be subject to no special taxes in addition to registration fees and gasoline taxes.

Two paragraphs of the report read:

"Special taxes levied upon motor vehicles using highways should be devoted entirely to highway purposes. There should be no diversion of such taxes in any degree to any other purpose.

"Gasoline taxes should not be so high as to encourage evasion."

And there is a paragraph favoring reciprocity among the states in favor of commercial motor car users.

No agreement was reached regarding the length of motor vehicles and weight of loads. A maximum height of 12 feet six inches and a maximum width of eight feet were agreed upon; and also a paragraph that, wherever changes may be made by a state affecting existing equipment, a reasonable period should be allowed to wear out such equipment.

An earnest effort was made by the highway users to reach an agreement with the railroads regarding lengths and weights, but without success. Of course, these are the principal factors in determining the size of a pay load. The railroads finally stated their position on these points as follows:

"Believing that weights and lengths are matters that should be left to the proper State regulatory authority, as they may find to be in public interest, the railroads are unable to make any definite recommendations for uniform application."

The highway users' recommendation was worded as follows:

"The recommendations of the Highway Users for weights and lengths are those adopted November 17, 1932, by the American Association of State Highway Officials and the U. S. Bureau of Public Roads for the purposes of: (a) establishing one of the fundamental prerequisites of highway design; (b) promoting efficiency in interstate operation of motor vehicles; (c) securing safety in highway operation; (d) removing undesirable equipment and operations from the highways; and (e) stabilizing on a definite basis the many relationships between the highway and the motor vehicle. The Highway Users urge the acceptance of the entire code."

This code briefly provides for a maximum length of 35 feet for a single vehicle, 45 feet for a combination of vehicles, and a maximum wheel and axle load limit of 8,000 and 16,000 pounds respectively.

The highway users' representatives believed that the code of specifications adopted by the American Association of State Highway Officials is fair and reasonable both to the public and industry, and amply protects the roads and road users. This code has been approved by

- (a) The American Association of State Highway Officials;
- (b) The U. S. Bureau of Public Roads;
- (c) The National Grange;
- (d) The U. S. Chamber of Commerce Committee on Competing Forms of Transportation; and
- (e) The American Automobile Association.

Despite the approval of this code by these various public agencies interested in the welfare of the public as well as the highways, the railroad representatives not only refused to agree to these specifications but refused to state in the report what specifications they recommended. This is inconsistent with the statement in the declaration of policy that "The supreme test must always be the interest of the public."

That these specifications are fair and reasonable alike to the private car user of the road as well as to the commercial user and also amply protect the highways, is not only amply demonstrated by the approval of these five public bodies and associations, but also by the fact that the present codes of at least 39 states in this country provide for a longer combination of vehicles, and the codes of at least 24 states for heavier loads, than those specified in the highway officials' code.

From the attitude of the railroad representatives regarding lengths of vehicles and weight of loads, it would seem that the railroads desired to impose drastic and unreasonable restrictions on highway transportation—one of the cheapest and most con-

UNIVERSITY OF HOUSTON

venient forms of modern transportation.

The major purpose of the Joint Committee was to avoid unseemly controversy between the railroads and the highway users. This result cannot be accomplished unless the railroads cease their attacks upon legitimate highway use. The interests of the public in improved transportation and in cheaper transportation should be recognized by all parties.

## 2. THE NATIONAL TRANSPORTATION (COOLIDGE) COMMITTEE'S REPORT

This committee was appointed on September 27, 1932, by a nationwide group of insurance companies and savings banks, who were all large holders of railroad securities, and groups vitally concerned with the welfare of the nation's railroads. The late Calvin Coolidge was Chairman of this committee until his death. Bernard M. Baruch, Alexander Legge, Clark Howell and former Governor Alfred E. Smith were the other members of this committee. Those interested in the creation of this committee as well as the standing of its members presaged a fair and unbiased report from a railroad viewpoint.

The report of the committee was published on February 15, 1933, and it is regarded as one of the fairest and most comprehensive considerations of the controversy between the railroads and the highway users.

The conclusions of the committee follow; they require no adornment. (For the purpose of emphasis, we have italicized the portions of the conclusions in which the highway users are particularly interested.)

"I. The railroad system must be preserved. Changed conditions require new policies but not abandonment of railroad regulation. The development of regulation and of new methods of transport make it unnecessary for Government further to create and foster competition with or among railroads as a defense against monopoly. That is an expensive and ineffective attempt to do indirectly what Government has shown its ability to do directly. Regulation is sufficient. *Government policies should be freed of any purpose either to favor or to handicap any form of transportation with relation to any other form. We cannot solve the problem on the theory upon which horses are handicapped in a race. In a fair field and no favor competition should be permitted to decide the result. Regulation should not attempt to 'run the business' of transportation. It should concentrate on protecting the public against discrimination and extortion and on requiring the most efficient service at the lowest competitive cost.*

"(1) Parallel lines and systems are wasteful and unnecessary. Regional consolidations should be hastened and, where necessary, enforced, looking eventually to a single National system with regional

divisions and the elimination of all excess and obsolete lines and equipment. Neither holding companies nor any device should be permitted to hinder consolidation or evade the letter or the spirit of regulatory law.

"(2) *Unprofitable railroad services should be replaced by cheaper alternative transport methods.*

"(3) Railroads should be permitted to own and operate competing services, including water lines, but regulatory jurisdiction should be extended to water rates and practices in coastal, inter-coastal and lake shipping to relieve commerce of present chaotic conditions. Congress should promptly clarify its intention on the long-and-short-haul clause of the Transportation Act.

"(4) Government assumption of all or part of the costs of inefficient competing transport as a defense against monopoly is no longer warranted and should be abandoned. As a general principle inland waterways should bear all costs of amortization, interest, maintenance and operation of the facilities for their navigation. If they cannot bear such charges and compete with other forms of transport, they should be abandoned. The St. Lawrence Waterway should be tested by this rule of self-support and if it fails in that test the pending treaty with Canada should not be ratified. Governmental commercial operation of the actual facilities of transportation, such as barge-lines, should not be continued.

"(5) *Automotive transportation should be put under such regulation as is necessary for public protection. It should bear its fair burden of tax but only on a basis of compensation for public expenditure on its behalf, plus its share of the general tax load. Neither tax nor regulation should be applied for any purpose of handicapping the march of progress for the benefit of the railroads. . . .*

"(6) Wages and working conditions of labor in transportation are determinable by established procedure in another forum and are not within the scope of this inquiry. There should be no heavier burdens on the railroads in employing labor to operate automobiles than on their competitors. In the railroads (as in other industries) rates, capitalization, salaries and wages must all follow changing economic conditions, but none should be sacrificed for the benefit of others. . . .

"(7) Beacons, weather service and similar auxiliaries to air traffic should be maintained at public expense, and air transport should be encouraged during its development stage but we believe that every such service should ultimately pay its own way.

"(8) The Committee has no recommendation to make on pipe lines. . . .

"II. The policy of trying to appraise railroad properties on some selected basis of valuation and then saying that they are entitled to earn a fair return on this appraisal should be reconsidered. Where competition with trucks and other methods exists, it will determine rates. In other cases rates must be regulated,

but the basis of costs of operation under efficient management is a better general guide than any attempt to preserve capital structures regardless of economic trends. We see no reason why the rate-making rule should not say in plain English that railroads are entitled to make a reasonable profit based upon costs of efficient operation and that they are not entitled to earnings merely to preserve present structures if overcapitalized. . . .

"III. The railroads should do much that they have not done to improve their condition without any Government help at all. They should promptly be freed of all unnecessary restrictions on the doing of it. It has been estimated that less than a 20 per cent increase in traffic would put most of them on an earning basis. In view of the narrowness of this margin of loss and of the very great savings possible in railroad operation, we regard their outlook as far from hopeless. . . .

"(a) Railroads should adopt the competing methods of which they complain.

"(b) Railroads should cooperate to reduce competitive expense.

(1) Unnecessary services should be abandoned.

(2) Metropolitan terminals should be consolidated and unnecessary facilities scrapped.

(3) Circuitous haulage should be eliminated.

"(c) Financial management should be improved.

"(d) Transport methods and equipment should be brought up-to-date.

"(e) In view of what could be done by better management, the general outlook seems far from hopeless.

"IV. Regulatory jurisdiction should be extended to the whole National transportation system but applied only to the extent necessary for public protection. The existing regulatory mechanism of the Interstate Commerce Commission is adequate and should be improved by reorganization without expansion or increased expense.

"V. Emergency Recommendations.

"(1) Corporate reorganization can and should be facilitated by revision of the bankruptcy procedure.

"(2) The recapture clause should be repealed retroactively.

"(3) The statutory rule of rate-making should be revised.

"(4) 'Adequate security' does not necessarily mean 'marketable collateral.'"

Governor Alfred E. Smith stated that, while he was in substantial agreement with the greater part of the committee's report, he desired to file a supplemental memorandum to state "my conclusions in my own language, placing the emphasis where I think it belongs." He says in part:

"As to competition by motor trucks and buses, the testimony given before us does not indicate to me that the competition is at this time as serious a menace to the railroads as they claim to be. Interstate trucks and buses as yet carry only a comparatively small part of all freight and passengers. On the other hand, it is unquestionable that this form of transportation will soon be used more and more, because it is economical and efficient. In a number of cases, buses and trucks have actually relieved the railroads of burdens on short hauls, and have enabled them to cut down train service where these could not possibly pay."

### 3. THE RAILROADS' NATIONAL LEGISLATIVE CAMPAIGN

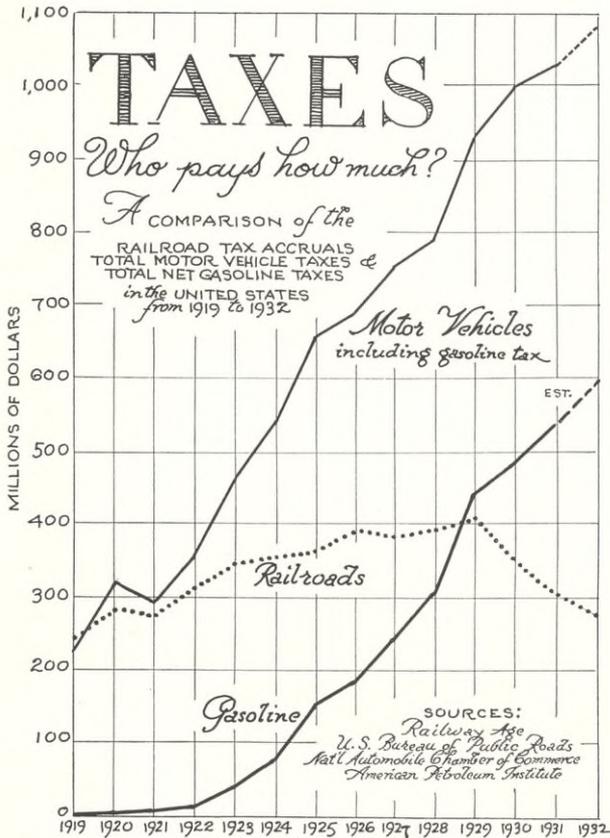
About two years ago at a meeting in New York, the Association of Railway Executives adopted a declaration of policy favoring legislation restricting the operation of trucks on the highways and the imposition of higher license fees. Since that time, the railroads have effected a powerful organization to introduce and sponsor restrictive truck legislation in all the states, have had active lobbyists at work and have spent immense sums of money in a colossal propaganda campaign.

Within the past three months 41 state legislatures have been in session as also our national Congress. In every one of these state legislatures and also in Congress the railroads have introduced every conceivable kind of measure to regulate, tax, and otherwise hamper and impede highway transportation. As many as 33 bills affecting highway users were introduced in a single state legislature.

The Texas law is a case in point: the railroads had this act passed about two years ago under which a truck in the State of Texas may not carry more than 7,000 pounds unless it is going to or returning from a railroad delivery point, when it is permitted to carry not more than 14,000 pounds.

So extreme and ridiculous were some of these regulatory measures that a member of the Georgia Senate, holding the mirror up to the railroad representatives, suggested a bill reading as follows:

"That a brakeman carrying a bell by day and a lantern by night lead all trains across crossings; that railroad time tables be printed in understandable form; that locomotives be electrified in cities of more than 10,000 population to abate the smoke nuisance; that conductors smile when they answer questions; that infants in arms be barred from passenger cars, but dogs and other animals be admitted; that it be made a misdemeanor to serve eggs more than one day old on Pullmans; that upper berths be abolished; that trains crossing streams wider than 25 feet be equipped with lifeboats and life preservers, that trains be limited to 15,000 pounds in weight, six feet in width, nine feet in height and forty feet in length, and that they be required to stop anywhere when flagged by hitch-hikers."



to farming, trucking and other agricultural enterprises; the means and methods of education have been expanded and newspapers, magazines and books are promptly delivered; perishable farm products now have a ready means of delivery for the next morning's consumption over a wide area; dairies and cattle farms have profited and numerous privately operated carriers are using the highways in the delivery of groceries, meats, milk, bread, refrigerated products and a long line of commodities over a very wide expanse of territory. Expensive crating and packing are no longer necessary on less than carload shipments. Perishable commodities are being delivered without damage resulting from delayed transportation and without the necessity for special icing or refrigeration. Merchants are also spared the expense of carrying large inventories.

A few of the salient facts why motor transportation should not be restricted beyond the limits advocated by the highway users in the joint recommendation are these:

(1) Highway users are now paying more than a billion dollars a year for special taxes, compared with \$8,192,253 paid

in 1913. The railroads are now paying approximately only \$300,000,000 a year, compared with \$122,005,000 paid in 1913.

(2) There are less than 1,300,000 railroad employes in this country compared with 4,000,000 persons gainfully employed in connection with the manufacture and operation of motor vehicles.

(3) Motor transportation is the cheapest, quickest and most convenient form of transportation for less than carload shipments up to a distance of from 200 to 300 miles. For instance: within four years motor vehicles reduced the price of carrying milk for a distance of 100 miles in the vicinity of Chicago from 36 cents per hundredweight to 12 cents per hundredweight.

(4) It is estimated that 45,000 communities in

The National Transportation Committee stated that automotive transportation is here to stay; that it is an advance in the march of progress; and that restrictions cannot be invented for the benefit of railroads.

A moment's reflection on this statement will show its truth. Compare the highways of today with the highways of some 15 to 20 years ago. Highway development within this period has been one of the outstanding achievements of our country. It is estimated that within the past decade governmental expenditures in highway construction have approximated 15 billion dollars. Hard surfaced highways have necessarily produced fundamental changes in our economic life and have inestimably aided commerce. New sections have been thrown open

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this country containing approximately 10 per cent of our population are without railroads and entirely dependent upon motor transportation.

(5) About 85 per cent of the 3,000,000 motor trucks in use today are privately owned—a large proportion by farmers.

(6) The chief of the United States Bureau of Roads testified under oath that trucks meeting the specifications of the State Highway Officials (which specifications are advocated by the highway users) do not damage the highways.

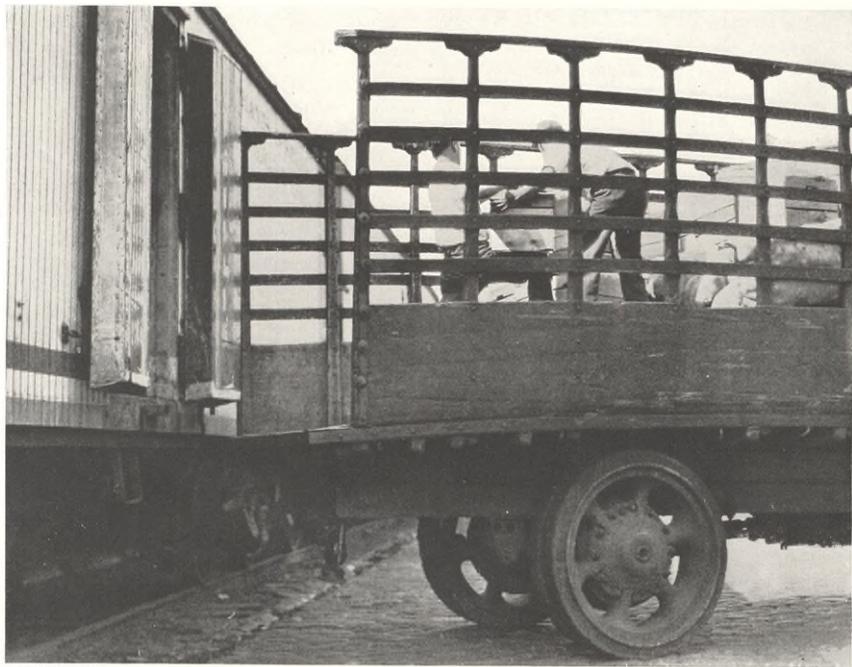
(7) Trucks constitute about 13 per cent of the motor vehicles using the highways and pay approximately 27 per cent of the special taxes paid by all motor vehicles.

(8) The depression and not the trucks is the cause of the railroads' present predicament. The Interstate Commerce Commission stated that during the peak traffic year of 1929 only 4.2 per cent of the inland freight of the country was carried intercities by motor trucks.

(9) Although commodity prices have been reduced below the 1913 level, railroad freights are

today from 50 per cent to 100 per cent higher than they were in 1913.

The National Transportation Committee by reason of the method of its creation and its personnel was fairly disposed toward the railroads and primarily had the best interests of the railroads in mind in preparing its report. But the Committee stated that automotive transportation is an advance in the march of progress and that neither taxes nor regulation should be applied to automotive transportation for any purpose of handicapping the march of progress for the benefit of the railroads. The railroads should heed this injunction. If they persist in their present legislative campaign of endeavoring to impose unreasonable and unwarranted restrictions upon automotive transportation, they will spend a vast sum of money without improving their own position and will handicap two of their best customers and provoke resentment and retaliatory measures resulting in the further taxation and restriction of their own operations—all of which will be to the detriment of the public interest.



E. L. NESMITH & ASSOC.

*The motor truck—competitor or ally?*

# The President's Annual Report for 1932

*The text of the President's Annual Report to the Stockholders is reproduced in this issue for the benefit of those readers of THE TEXACO STAR who may not have received a copy of the original. Lack of space makes it necessary to omit the tables.*

New York, April 8, 1933.

To the Stockholders of  
The Texas Corporation:

We submit herewith Annual Report of The Texas Corporation and its subsidiary companies for the year ended December 31, 1932. The consolidated balance sheet and income account include the Indian Refining Company and Texaco Salt Products Company, not previously consolidated. Inventories are carried at cost, lower than market.

Operations for the year resulted in a loss of \$2,161,840.89, or \$0.22 per share as against \$9,954,478.47, or \$1.01 per share, in 1931.

Net current assets are \$133,426,320.05, equivalent to \$13.54 per share of outstanding stock. Current assets are 5.8 times current liabilities. We had no bank loans. Operating and general expenses in 1932, exclusive of Indian Refining Company and Texaco Salt Products Company, were reduced \$11,629,071.93, or 11.7%. Dividends amounting to \$1.00 per share were paid out of previously earned surplus.

Expenditures for plant account, including replacements, amounted to \$13,042,951.55.

Income before interest charges, reserves and retirements was equivalent to 5.5 times the interest charges of the year.

As of October 1, 1929, The Texas Corporation issued \$100,000,000 5% bonds due October 1, 1944. Sinking fund provision calls for redemption of \$5,000,000 par value annually beginning October 1, 1935.

California Petroleum Corporation has two bond issues; one \$12,000,000 5½%, dated November 1, 1926, due November 1, 1938, with annual sinking fund requirement of \$600,000; and an \$8,000,000 5% issue, dated February 1, 1927, due February 1, 1939, with annual sinking fund requirement of \$400,000.

Sinking fund requirements have been provided for as follows: The Texas Corporation 5s through

the year 1935; California Petroleum Corporation 5½s through the year 1933, and the 5s to and including May 1, 1935.

Indian Refining Company issued \$3,500,000 5½% Gold Notes June 2, 1930, which were due and paid at maturity, December 1, 1932.

Therefore, of original bond issues aggregating \$123,500,000, \$16,100,000 had been retired as of December 31, 1932, of which \$11,100,000 were retired in 1932.

In addition, there were on hand \$265,000 par value California Petroleum Corporation 5½s and \$177,000 par value 5s available for sinking fund purposes but which have not yet been cancelled and applied thereto.

Bonds retired in 1932 will reduce annual interest charges \$578,500.

Together with several other large units of the refining industry, we purchased during the year stock in the Hydro Patents Company, which controls the Hydrogenation Process in this country. It is a process that has been developed for converting low-grade petroleum products into gasoline and other refined products by hydrogenation.

We have completed the purchase of all of the outstanding capital stock of the International Refining Company, a Montana corporation. Also a substantial interest was acquired in Societe des Raffineries de Petrole de la Gironde by purchase of stock through our French subsidiary. A refinery under construction at Bordeaux at the time has been completed and put into operation.

## PRODUCING

Gross crude oil production from wells operated by the Company aggregated 32,787,863 barrels. Our net interest in this, plus oil produced by others for our account, amounted to 28,453,759 barrels, a decrease in 1932 of 1,022,269 barrels, or 3.5%.

We endeavored during the year to confine our activities to the necessary development of the prop-

## The TEXACO STAR

erties, confining drilling so far as possible to direct offset wells and lease obligations.

Our reserves have been materially increased, particularly by developments in the following pools in Texas:

Conroe Pool, Montgomery County  
North Government Wells Pool, Duval County  
Escobas Pool, Zapata County  
Thompson Dome, Fort Bend County  
Manvel Pool, Brazoria County  
and, in addition, Lake Barre Dome in Louisiana.

In the Van Pool, Van Zandt County, Texas, our percentage share in the unitized production, because of revised appraisal of interests, has increased from 4.5% to 8.5%.

Proven and undeveloped acreage held by the Company in the United States amounts to 4,939,601 acres.

### PIPE LINES

Total receipts by our pipe line system amounted to 54,530,349 barrels.

New investment in pipe lines was of a relatively minor character. A total of 175 miles of line were laid, very largely of salvaged pipe. Principal installations consisted of:

Facilities for the movement of oil from Port Barre Dome in Louisiana to our water terminal at Baton Rouge, Station and pipe line out of Conroe into Houston,  
Station and gathering lines at Manvel, and Thirty-four miles of loops in the Shreveport-Port Arthur line, which enabled us to lease one of these lines on satisfactory terms to another company for a three-year period.

### REFINING

Crude runs to stills increased 1.5%. Gasoline yield averaged 50.3%, as compared with 51.1% in 1931. Total United States industry yield in 1932 was 44.7%. The slight reduction in our percentage yield was due to the introduction of Texaco Fire-Chief Gasoline, a superior product. Successful research activities contributed to the improvement. Continuous and intensive research work is carried on to constantly develop and maintain the highest possible quality of products.

### SALES

While consumption of petroleum products, world over, suffered some decline, our volume has been maintained a little above the average. We think that quality of the product and the advertising are responsible in a large degree for the results.

Material savings in marketing and operating expenses were effected by further coordination of transportation facilities.

We have practically completed bulk-oil installation programs in the Philippines, China, Australasia, South America and Africa, in addition to which we have made much progress in the development of inland waterway deliveries here in the States.

### MARINE

The Marine Department has experienced the most successful year from the standpoint of volume and efficiency. The Company's fleet, ocean-going and inland, was operated practically to full capacity. A new 10,000-ton motor tanker was acquired at an exceptionally low price.

### RAILWAY TRAFFIC

Due to the decline in sales volume and extension of water deliveries, tank cars in Company service decreased 18.9%. Tank car loadings decreased 11.8%. At the end of the year we had 1,831 leased cars, and owned 4,753, a total of 6,584 cars.

### SULPHUR

Reduced sales of sulphur here and abroad contributed to a substantial reduction in our revenue from sulphur operations.

### GENERAL

Conditions and results in the industry continue unfavorable, gasoline consumption in the United States declining about 7.5% in 1932, and outside of the United States about 2.0%, with volume remaining, however, at about that of 1929; a favorable condition that does not prevail in other major industries.

The long continued depression has brought commodity prices on the whole, in the United States, down to 68.0% of 1929 average, and to approximate the prices of 1879, the low year of the depression of the '70's.

The chief causes of the demoralization in the oil industry are: first, the high gasoline taxes, the evasion and underselling by many, carrying down the market prices below costs of those who pay; second, disregard by a few crude oil producers of the con-

## The TEXACO STAR

servation and proration authorities and their orders, particularly in the fields of East Texas, Panhandle of Texas and Oklahoma City, where the inability and inefficiency of the enforcement authorities have resulted in a few producers running their wells at high flow, while well over 95% of the producers, either voluntarily in an effort to support conservation and stabilizing efforts, or by force of the laws, have been compelled by Commissions' orders to restrict their production, and as a consequence have suffered severely in quantity production, drainage and price. The so-called illegal production has for some time exceeded the production of all the eight producing states east of the Mississippi River, and as of this date exceeds the total of these states with Kansas, New Mexico, Colorado, Wyoming and Montana.

Strenuous efforts by the industry and by the legislatures and executives of these two states are now being made to endeavor to correct this condition, and more intensive efforts are being made to prevent the gasoline tax evasion.

The activities of the railroads in initiating and supporting legislation to restrict size and activity of trucks and increase taxes on use of same are contributing to the reduction in gasoline consumption.

Approximately 2,100,000 less automobiles and trucks were registered in the United States in the year 1932 than in 1929.

### TAXES

Taxes in 1932 aggregated \$56,037,652.66. Gasoline and lubricating oil taxes, including the Federal excise taxes effective June 21, 1932, amounted to \$49,831,500.35 in 1932. The new Federal tax alone for the period it was in effect totaled \$7,164,425.92, adding an additional burden on the Company and its customers at an annual rate of approximately \$14,000,000.

The oil industry is undoubtedly the most heavily taxed industry and I urge upon each of you, in the interest of your Company, opposition to any further tax and assistance in effecting reductions in the present taxes.

It has been the practice of The Texas Company and The Texas Corporation from the beginning to carry its properties at cost, exercising every care and supervision in construction and acquisitions to see that the costs were as low as could possibly be attained. None of our properties has ever carried any appreciation. We believe, even under present conditions, that our book values are very conservative.

The full rate of depletion and depreciation al-

lowed under regulations of the Internal Revenue Bureau was charged this year, as in the past. The total of all property subject to these charges is now depreciated 53%. At the same time the properties have been maintained at a high standard of condition and efficiency. All intangible development costs were charged to current expenses as heretofore.

When we acquired control of the California Petroleum Corporation in 1923, in order to bring its records into accord with our accounting policy and practice, we charged off \$24,172,723.10, as follows:

|  |                 |
|--|-----------------|
| Adjustment of book values (before depletion) of proven and prospective oil and gas lands and leases .....        | \$15,981,788.68 |
| Additional cost depletion sustained .....  | 4,489,888.45    |
| Capitalized book investment in stock of certain subsidiaries in excess of net worth at time of acquisition ..... | 2,802,447.35    |
| Adjustment of plant accounts of Montana and Wyoming subsidiaries to physical inventories .....                   | 623,676.74      |
| Miscellaneous adjustments .....  | 274,926.88      |

When, early in 1931, we acquired control of the Indian Refining Company, we charged off \$6,813,282.81, as follows:

|  |                 |
|--|-----------------|
| Appreciation of physical properties previously capitalized .....                     | \$ 1,275,824.65 |
| Adjust value of physical properties to inventory .....                               | 1,206,794.51    |
| Adjust depreciation reserve account insufficient depreciation previously taken ..... | 4,330,663.65    |

### DISTRIBUTION OF STOCK

On December 31, 1932, there were 39,716 stockholders, an increase during the year of 4,634. The distribution at the close of 1932 was as follows:

|                               | Number | Shares    | Percentage of<br>Stock |
|-------------------------------|--------|-----------|------------------------|
| Brokers .....                 | 483    | 656,404   | 6.66%                  |
| Men Stockholders .....        | 53,193 | 4,342,258 | 44.08%                 |
| Women Stockholders .....      | 32,086 | 2,212,297 | 22.46%                 |
| Corporations and Banks .....  | 1,403  | 1,091,950 | 11.08%                 |
| Fiduciaries and Estates ..... | 2,551  | 1,548,327 | 15.72%                 |
|                               | 89,716 | 9,851,236 | 100.00%                |

### EMPLOYEES' STOCK PURCHASE PLAN

The Company was among the first to allot its stock to employes on a deferred payment basis and allotments had been made prior to 1919. Under the Plan for Employes, adopted in 1919 and revised in 1929, allotments were made annually through 1930. The Plan as revised provides for allotments from time to time and that the Company's participation in the cost of the stock shall be limited to 15% of the net earnings in excess of 6% on the average invested capital for the preceding year. Under this provision there was no contribution by the Company in 1931 and 1932, and no stock has been offered to employes since 1930.

The Plan is operated through a Trustee, who holds the stock until fully paid for. Prior to 1930,

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the Trustee financed the purchase of stock for allotment partly through bank loans and partly by advances from the Company; since then the Company has advanced all of the required funds.

The amount now owing to the Company by the Trustee, \$11,212,176.13, represents advances made by the Company in 1930 and prior thereto for the liquidation of bank loans and purchase of stock, less amounts collected on employes' stock purchase contracts. No stock has been purchased by the Trustee since 1930. Employes' stock purchase contracts now outstanding comprise balances owing on allotments made in 1928, 1929 and 1930, and stock now held by the Trustee includes the unallotted remainder of purchases made in 1930 and prior thereto, plus allotments cancelled or sur-

rendered. The stock held by the Trustee, allotted and unallotted, aggregates 292,205 shares.

Amounts owing to the Company by the Trustee were included in the balance sheet in the item of accounts receivable through 1929. Thereafter, the Trustee having discharged all bank loans, the item was shown separately as Loans Secured by Marketable Securities. During 1932 the required installment payments on employes' stock purchase contracts were reduced from \$1.00 to \$0.25 per share per month, consequently extending the time of payment. Under present conditions it has been deemed advisable to remove this account from current assets, in the balance sheet.

By order of the Board of Directors,  
R. C. HOLMES, President.

## Pipe Lines

**I**N Joseph E. Pogue's study, *Economics of Pipe-Line Transportation in the Petroleum Industry*, in 1932, which is a complete and interesting study, he reaches the following conclusions:

The principal economic features of pipe-line transportation, as developed in the foregoing sections, may be brought together in summarized form as follows:

1. The oil pipe-line system of the United States is an integral part of the petroleum industry. It has been developed in practically its entirety by refiners as a means for insuring the required supply of raw material and, therefore, serves a broader economic function than that of transportation alone.
2. The cost of pipe-line transportation is lower than that of freight haulage by railroads, and the pipe-line system, therefore, constitutes a superior form of transportation for liquids in bulk.
3. The pipe lines are under the supervision of the Interstate Commerce Commission, and as common carriers are bound by law to charge reasonable rates and offer adequate service.
4. Recent developments in the petroleum industry (unit operation of oil pools and proration) have established the principle of ratable takings from individual leases, which automatically prevents any discrimination as between shippers from the single pool.
5. The Commodities Clause of the Act to Regulate Commerce was passed by the Congress twenty-six years ago to dissociate the railroads from the operation and control of the anthracite coal fields of Pennsylvania; the concentrated occurrence of that commodity in a single area created a unique situation of potential monopoly having little analogy to the far-flung and ever-shifting sources of crude oil supply.
6. The recent proposal to apply the Commodities Clause to pipe lines arises from the economic distress caused by the depression, rather than from any malfunctioning of the pipe-line system itself.
7. The divorce of ownership of the pipe-line system from the oil industry would be a complicated and disruptive process, and its complete accomplishment would involve a difficult, if not impracticable, financial operation creating additional debt.
8. The benefits to be derived from such action are not clearly defined nor assured; the results are more apt to be unproductive of betterments and in directions unanticipated by the proponents of the change.
9. In short, the present system is functioning adequately; sufficient authority for any needed regulation is lodged with the Interstate Commerce Commission; the reasons offered for dissociating the system from the oil industry are based upon an erroneous diagnosis; the proposed change could be effected only at great cost; and the economic consequences could not be counted upon to be constructive.

# Consolidated Balance Sheet

## THE TEXAS CORPORATION and SUBSIDIARY COMPANIES

### ASSETS

| CURRENT ASSETS:  | December 31, 1932       | December 31, 1931*      | Inc. or Dec.            |
|--|-------------------------|-------------------------|-------------------------|
| Cash   | \$ 26,402,446.54        | \$ 21,109,142.24        | +\$ 5,293,304.30        |
| Marketable Securities (at Cost)  | 10,779,113.04           | 10,724,587.58           | + 54,525.46             |
| (Market Value, \$11,792,403.10)  |                         |                         |                         |
| Loans Secured by Marketable Securities   |                         | 11,719,418.95           | - 11,719,418.95         |
| Notes Receivable, less Reserve   | 5,478,099.67            | 5,409,411.03            | + 68,688.64             |
| Accounts Receivable, less Reserve  | 25,239,179.49           | 28,956,128.48           | - 3,716,948.99          |
| Inventories:   |                         |                         |                         |
| Merchandise, Crude and Refined Oils (at Cost, lower than Market)                                   | 86,559,253.57           | †98,072,794.84          | - 11,513,541.27         |
| Materials and Supplies   | 5,494,945.78            | 5,823,352.01            | - 328,406.23            |
| Other Current Assets   | 1,001,271.79            | 620,127.75              | + 381,144.04            |
|  | <u>\$160,954,309.88</u> | <u>\$182,434,962.88</u> | <u>-\$21,480,653.00</u> |
| Employees' Stock Purchase Plan (The Texas Corporation Capital Stock and Contracts held by Trustee) | \$ 11,212,176.13        |                         | +\$11,212,176.13        |
| The Texas Corporation Capital Stock held in Treasury (at Cost), 364,819 Shares                     | 6,002,890.49            |                         | + 6,002,890.49          |
| PERMANENT INVESTMENTS:   |                         |                         |                         |
| Non-Affiliated Companies   | 21,490,853.92           | 21,626,098.89           | - 135,244.97            |
| Affiliated Companies   | 17,993,340.04           | 22,503,519.26           | - 4,510,179.22          |
|  | <u>\$ 39,484,193.96</u> | <u>\$ 44,129,618.15</u> | <u>-\$ 4,645,424.19</u> |
| Sinking Funds  | \$ 620,125.00           | \$ 1,385,000.00         | -\$ 764,875.00          |
| FIXED (CAPITAL) ASSETS:  |                         |                         |                         |
| Properties, Plant and Equipment:   |                         |                         |                         |
| Lands, Leases, Wells and Equipment   | \$180,755,884.47        | \$187,390,090.81        | -\$ 6,634,206.34        |
| Oil Pipe Lines and Tank Farms  | 78,751,710.94           | 79,977,017.68           | - 1,225,306.74          |
| Refineries and Terminals   | 148,448,165.19          | 138,502,012.81          | + 9,946,152.38          |
| Tank Cars and Other Railroad Equipment   | 9,855,046.33            | 9,859,252.12            | - 4,205.79              |
| Ships and Marine Equipment   | 34,065,388.36           | 33,672,314.20           | + 386,974.16            |
| Sales Stations, Facilities and Equipment   | 113,277,320.35          | 105,550,832.46          | + 7,726,487.89          |
| Miscellaneous  | 4,108,331.58            | 2,764,320.72            | + 1,344,010.86          |
|  | <u>\$569,261,847.22</u> | <u>\$557,721,940.80</u> | <u>+\$11,539,906.42</u> |
| Patents and Trade-Marks  | 1,293,285.61            | 352,040.80              | + 941,244.81            |
|  | <u>\$570,555,132.83</u> | <u>\$558,073,981.60</u> | <u>+\$12,481,151.23</u> |
| Less Reserves for Depreciation, Depletion and Amortization   | 283,918,010.56          | 256,354,246.03          | + 27,563,764.53         |
|  | <u>\$286,637,122.27</u> | <u>\$301,719,735.57</u> | <u>-\$15,082,613.30</u> |
| Prepaid and Deferred Charges:  |                         |                         |                         |
| Exchange Fluctuations on Current Assets of Foreign Subsidiaries                                    | \$ 5,967,104.78         | \$ 4,558,953.62         | +\$ 1,408,151.16        |
| Other Prepaid and Deferred Charges   | 8,876,947.43            | 9,101,255.34            | - 224,307.91            |
|  | <u>\$ 14,844,052.21</u> | <u>\$ 13,660,208.96</u> | <u>+\$ 1,183,843.25</u> |
|  | <u>\$519,754,869.94</u> | <u>\$543,329,525.56</u> | <u>-\$23,574,655.62</u> |
| <b>LIABILITIES</b>   |                         |                         |                         |
| CURRENT LIABILITIES  |                         |                         |                         |
| Notes Payable  | \$ 488,896.89           | \$                      | +\$ 488,896.89          |
| Accounts Payable   | 19,840,177.91           | 16,802,587.08           | + 3,037,590.83          |
| Accrued Liabilities  | 4,736,099.65            | 5,220,250.48            | - 484,150.83            |
| Dividend Payable January 1st   | 2,462,815.38            | 4,925,620.75            | - 2,462,805.37          |
|  | <u>\$ 27,527,989.83</u> | <u>\$ 26,948,458.31</u> | <u>+\$ 579,531.52</u>   |
| FUNDED AND LONG TERM DEBT:   |                         |                         |                         |
| The Texas Corporation:   |                         |                         |                         |
| 5% Convertible Sinking Fund Gold Debentures, 1944  | \$ 95,000,000.00        | \$100,000,000.00        | -\$ 5,000,000.00        |
| California Petroleum Corporation:  |                         |                         |                         |
| 5½% Convertible Sinking Fund Gold Debentures, 1938   | 7,800,000.00            | 9,000,000.00            | - 1,200,000.00          |
| 5% Convertible Sinking Fund Gold Debentures, 1939  | 4,600,000.00            | 6,000,000.00            | - 1,400,000.00          |
| Purchase Obligations   | 2,404,744.55            | 2,845,877.34            | - 441,132.79            |
|  | <u>\$109,804,744.55</u> | <u>\$117,845,877.34</u> | <u>-\$ 8,041,132.79</u> |
| Deferred Credits   | \$ 1,451,877.62         | \$ 1,445,774.03         | +\$ 6,103.59            |
| Capital and Surplus of Minority Interests  | 337,176.36              | 41,852.45               | + 295,323.91            |
| Common Capital Stock (Par Value \$25.00)   | 246,280,900.00          | 246,280,900.00          |                         |
| SURPLUS:   |                         |                         |                         |
| Capital Surplus Paid-In  | \$ 49,377,740.20        | \$ 48,148,196.46        | +\$ 1,229,543.74        |
| Earned Surplus:  |                         |                         |                         |
| Appropriated for Exchange Fluctuations on Current Assets of Foreign Subsidiaries                   | 5,967,104.78            | 4,558,953.62            | + 1,408,151.16          |
| Unappropriated   | 79,007,336.60           | 98,059,513.35           | - 19,052,176.75         |
|  | <u>\$134,352,181.58</u> | <u>\$150,766,663.43</u> | <u>-\$16,414,481.85</u> |
|  | <u>\$519,754,869.94</u> | <u>\$543,329,525.56</u> | <u>-\$23,574,655.62</u> |

†At Market, lower than Cost.

\*The Indian Refining Company and Texaco Salt Products Company not consolidated in 1931 Balance Sheet.

## Consolidated Income and Earned Surplus Account

|  | 1932             | 1931*            | Inc. or Dec.     |
|--|------------------|------------------|------------------|
| Gross Operating Earnings.....  | \$137,369,695.00 | \$138,827,076.26 | -\$ 1,457,381.26 |
| Operating Charges:   |                  |                  |                  |
| Operating and General Expenses.....  | \$ 92,657,484.98 | \$ 99,442,717.79 | -\$ 6,785,232.81 |
| †Taxes.....  | 6,206,152.31     | 6,106,040.91     | + 100,111.40     |
| Intangible Development Costs.....  | 2,716,940.47     | 2,508,726.78     | + 208,213.69     |
|  | \$101,580,577.76 | \$108,057,485.48 | -\$ 6,476,907.72 |
| Balance.....   | \$ 35,789,117.24 | \$ 30,769,590.78 | +\$ 5,019,526.46 |
| Non-Operating Income (Net).....  | 3,161,790.05     | 4,318,453.69     | - 1,156,663.64   |
| Income before Interest Charges, Reserves<br>and Retirements.....                                       | \$ 38,950,907.29 | \$ 35,088,044.47 | +\$ 3,862,862.82 |
| Interest Charges:  |                  |                  |                  |
| Interest and Discount on Funded and Long<br>Term Debt.....   | \$ 6,589,233.65  | \$ 6,357,955.68  | +\$ 231,277.97   |
| Other Interest.....  | 517,725.76       | 382,109.48       | + 135,616.28     |
|  | \$ 7,106,959.41  | \$ 6,740,065.16  | +\$ 366,894.25   |
| Balance.....   | \$ 31,843,947.88 | \$ 28,347,979.31 | +\$ 3,495,968.57 |
| Depletion and Lease Amortization.....  | \$ 5,386,756.35  | \$ 8,793,289.71  | -\$ 3,406,533.36 |
| Depreciation, Retirements and Other Amortiza-<br>tion.....   | 29,106,585.80    | 29,727,145.82    | - 620,560.02     |
|  | \$ 34,493,342.15 | \$ 38,520,435.53 | -\$ 4,027,093.38 |
| Loss for Period.....   | \$ 2,649,394.27  | \$ 10,172,456.22 | -\$ 7,523,061.95 |
| Loss Applicable to Minority Interests.....   | 487,553.38       | 217,977.75       | + 269,575.63     |
| Net Loss Accrued to Corporation.....   | \$ 2,161,840.89  | \$ 9,954,478.47  | -\$ 7,792,637.58 |
| Earned Surplus at End of Previous Year.....  | 102,618,466.97   | 135,077,736.99   | - 32,459,270.02  |
| Direct Adjustments (Deductions).....   | 65,272.32        | 339,577.17       | - 274,304.85     |
|  | \$100,391,353.76 | \$124,783,681.35 | -\$24,392,327.59 |
| Deduct:  |                  |                  |                  |
| Provision for estimated losses on<br>Notes and Accounts Receivable..                                   | \$ 3,000,000.00  | .....            | +\$ 3,000,000.00 |
| Corporation's Proportion of Previous<br>years' losses of companies not<br>previously consolidated..... | 2,565,650.86     | .....            | + 2,565,650.86   |
|  | \$ 5,565,650.86  | .....            | +\$ 5,565,650.86 |
| Total.....   | \$ 94,825,702.90 | \$124,783,681.35 | -\$29,957,978.45 |
| Dividends Paid or Declared—Cash.....   | 9,851,261.52     | 22,165,214.38    | - 12,313,952.86  |
| Earned Surplus at End of Year.....   | \$ 84,974,441.38 | \$102,618,466.97 | -\$17,644,025.59 |

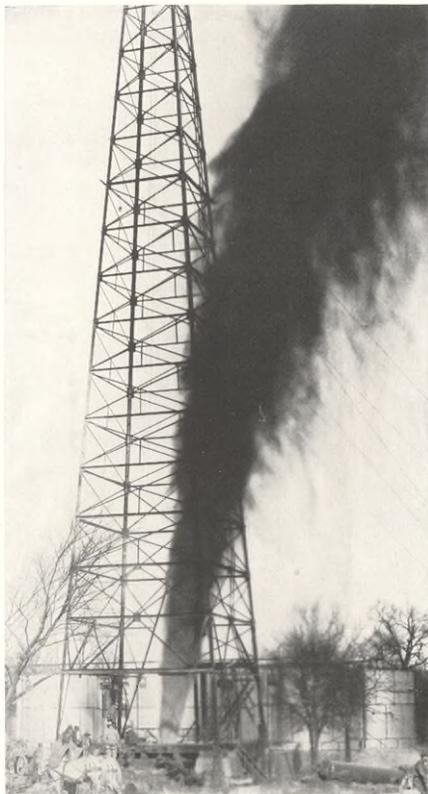
†Amounts shown do not include State gasoline and Federal excise taxes, amounting in 1932 to \$49,831,500.35 and in 1931 to \$40,910,796.63.  
\*The Indian Refining Company and Texaco Salt Products Company not consolidated in 1931 Consolidated Income and Earned Surplus Account.

# Four Billion, 695 Million Dollars Wasted in 32 Years

*Such is the Record of Oil Production in the United States*

**T**O THE engineer and economist, waste is anathema. This is especially true when the waste is that of an irreplaceable national resource such as petroleum. We are easily conscious of some of the wastes in the petroleum industry—the wild well burning like a torch in a developing field—the huge gas flares beside a natural gasoline plant. Nevertheless, the most important wastes in the oil industry are those that take place day by day with little visible sign; these are not only actual physical wastes, but capital and social wastes which weaken the industry as a whole and render it less able to defend itself against its traducers. In the final analysis, most of them can be traced to the present method of producing oil which is imposed upon the producers of the United States by the system of laws governing oil production today.

Let us take an inventory: First there are the visible wastes—fire losses in the fields, a large part of them preventable; losses by evaporation from open tankage and earthen storage; waste from leaky pipe lines, etc. Much of this physical waste has of late years been avoided by improved production practices. Nevertheless, the fire losses in some cases are still heavy, and even as late as 1920 the Bureau of Mines estimated that 6.2 per cent of the total production in the Mid-Continent fields was lost due to evaporation. This loss is, of course, of the gasoline



*Losses from wild wells are very large*

EWING GALLOWAY

content of the oil, its most valuable constituent.

Losses from wild wells are sometimes very large. For instance, the Lakeview gusher in the Sunset-Midway field in California produced, flowing wild, several million barrels, only a part of which was saved. Burning wells in East Texas, at Smackover, in the Oklahoma City Pool, and in other areas have been responsible for huge losses.

Gas wastage is not so noticeable as oil wastage because it can be blown invisibly into the air, but 1,000,000,000 cubic feet per day is now being dissipated, even though the improvements in use have been very great in the last few years. The construction of a great system of gas transmission lines and the general adoption of re-

pressuring operations have done much to stop the previous and much greater waste.

What these wastes have been in the past is indicated by a recent calculation that during the height of the Cushing boom, 25,000 barrels of natural gasoline were blown into the air every day with the wasted natural gas of that field. Besides these operating wastes, there is also the waste due to wild gas wells, of which there have been numerous cases.

These visible wastes of gas and oil are, however, accompanied by even more important underground wastes, not visible to the eye but vastly more important to the industry. Gas in an oil field has two

important functions, which comprise the following:

1. Dissolved in oil under pressure it increases its fluidity and permits the oil to move readily through the pores of the sand to the well.

2. The expansive force of its pressure furnishes the energy necessary to lift the oil to the surface.

Upon its effective use for these two purposes depends, in a large measure, the efficiency of the producing operation. Gas wastage is, therefore, oil wastage and also a wastage of money in that much of the oil which could have been lifted by this gas will, in the future, have to be pumped at added expense. In speaking of this problem, William L. Lacey remarks that,—

"The conservation of natural gas in the production of oil is of paramount importance. For instance, it is estimated that in 1927, in one field alone—the Burbank Field—gas conservation would have resulted in the production of at least 28,000,000 additional barrels of oil. Had pressure control been applied to this field as a unit, approximately \$36,000,000 of additional revenue would have been realized in one year from the oil which will remain unproduced because of uncontrolled production methods. Also, many wells would have flowed naturally under pressure control, and lifting costs would have been reduced materially."

In general, the cost of producing oil by flowing with the natural gas pressure is from 35 cents to \$1.00 per barrel less than that produced by pumping. It is estimated that for each thousand feet of gas wasted in the oil fields at the present time, one-fifth of a barrel of oil is left permanently in the producing formation on account of its increased density, due to loss of its gas content, and which cannot be recovered by any known commercial method. An additional one-fifth of a barrel of oil will have to be pumped out of the formation which would have been lifted by the natural gas pressure.

There are, then, irrecoverable losses each day in the United States of about 200,000 barrels of oil, and about 200,000 barrels more will have to be lifted at an additional cost of 35 cents a barrel. These figures for production costs do not, of course, include cost of administration, depletion, or depreciation.

Besides these losses due to gas wastage, there are also losses due to flooding. In badly completed wells, leakage of water around the casing from water sands into oil sands results in the flooding of producing horizons and the isolation of large quantities of oil within those horizons. It is difficult

to estimate the losses which have been occasioned by such faulty practices. They are particularly likely to occur when the price of oil is low, because at this time the operator is inclined to economize in his casing program.

Another important wastage is that of money invested in unnecessarily drilled wells. A reasonable estimate is that one well in every four is unnecessary and that practically all the oil that has been produced in the United States could have been produced through 75 per cent of the wells drilled. During the last three years, approximately 49,000 wells have been drilled. The average cost of these has been close to \$15,000 apiece, so that there have been invested in drilled wells during this time at least \$735,000,000. If our

assumption is correct that 25 per cent of these wells are unjustified, then the industry has invested \$183,750,000 unnecessarily in development during the period.

In addition to this wastage, disorderly and over-competitive practices in the fields have resulted in more rapid development than is economically desirable. The result is that fields have come in with peak production and fallen rapidly to very small settled production.

To move the oil that is produced at the peak, it is necessary to build producing and transporting facilities far in excess of the average need of the field, for the average well under unregulated open flow conditions will produce from at least 50 per cent to 75 per cent of its ultimate production in its first year. If a field is drilled up as rapidly as possible, 50 per cent of its total production may be brought to the surface in the first year of its full development. Pipe lines and gathering systems which must be installed to take care of this oil become useless within a short period. This is particularly true where fields are not prorated, but are permitted to



*Most oil well fires are preventable*

## The TEXACO STAR

produce wide open, as has been the case in the past.

Had proration not been in effect, East Texas would have probably produced at its peak 5,000,000 barrels a day. It is doubtful if the construction of railroad and pipe line facilities and steel tankage to move and store this tremendous volume of oil could have been financed; and with wells flowing wide open, undoubtedly a good part of it would have been wasted down the streams or have been flowed into open earthen storage where its most valuable constituent—gasoline—would have evaporated. If pipe lines had been built to move even one-half of this enormous production, most of them would have been useless within a short time, with corresponding loss to the public and to the industry.

Besides these actual physical and capital wastes, the waste of human effort and, in some cases, of human life, due to the disorderly practices, is impressed deeply on anyone who has ever visited a boom oil field. In the effort to get the oil out, everything is concentrated on the drilling of wells.

Many of these wastes are attributable to our present system of competitive production; that is, the race to get the oil to the surface before our neighbor gets it away from us. However, the uneconomic producing practices outlined here are characteristic not only of the United States but also of foreign countries, in such widely different areas as Roumania, Russia, Poland, Persia, Dutch East Indies, Venezuela, and Mexico.

Let us, then, make a rough estimate of what these practices have cost the industry in the United States in the past 32 years:

|   |                 |
|---|-----------------|
| Oil lost due to gas wastage and flooding—1,250,000,000 barrels valued at \$1.00 a bbl.....  | \$1,250,000,000 |
| Oil lost due to disorderly production practices—825,000,000 barrels at \$1.00 a barrel..... | 825,000,000     |
| Gas wastage—3,500,000,000 M cubic feet at 5c per M cu. ft.....                              | 425,000,000     |
| Investment in unnecessary wells ...   | 1,995,000,000   |
| Investment in unnecessary pipe lines and gathering facilities.....                          | 200,000,000     |
| TOTAL.....  | \$4,695,000,000 |

★

★

★

Wastes in unnecessary duplication in transportation, manufacturing, and distributing facilities have not been calculated in this article, but considering the investment in these branches of the industry, they are probably of the same order.

Such figures as these should give us pause. There seems now, at least within the industry, some prospect of overcoming the prejudice of the elements which have in the past obstructed all efforts for the conservation of crude petroleum, both by the avoidance of gas and oil wastage and those economic and social wastes associated with their production.

The seriousness of the situation at present must be apparent when we consider that actual physical waste of oil and gas is estimated to be valued at \$7,000,000 per month, while if we add the cost of excess wells and disorderly production practices, this figure reaches \$12,000,000 per month. The free and uncontrolled production of oil and gas can lead but to disaster.

The economic waste also runs into staggering figures. If we can assume that the average crude oil prices in the States of Oklahoma and Texas for 1929, 1930 and 1931, could be maintained through the year 1933, except for the effect of stolen oil in the demoralization of markets, through this and gasoline tax evasion, we find

|  |              |
|--|--------------|
| That the State of Oklahoma would gain for the year in revenues from oil..... | \$ 3,271,000 |
| The royalty owner.....   | 13,632,000   |
| The producer.....  | 92,157,000   |

in addition to probable better earnings by the refiner and marketer. From this can be deducted about \$11,000,000 that it is estimated the consumer within the state would pay in higher prices for the products.

In Texas, the figures would be

|                              |              |
|------------------------------|--------------|
| Gain to the state in revenue | \$ 3,374,000 |
| Royalty owner.....           | 21,093,000   |
| Producer .....               | 144,280,000  |

plus a reasonable profit to the refiner and marketer, less a probable increased cost to the consumer within the state of about \$29,000,000.

What the consumer needs is not ridiculously low prices but stability of industry, employment and purchasing power for the products of his own activity.

**UNITED STATES**  
**AVERAGE GASOLINE PRICES IN 50 REPRESENTATIVE CITIES**  
**AND WEIGHTED AVERAGE CRUDE OIL PRICES**

|              | SERVICE STATION<br>(EX. TAX) | TAX           | SERVICE STATION<br>(INC. TAX) | WEIGHTED<br>AVERAGE CRUDE<br>OIL PRICE<br>IN U. S. |
|--------------|------------------------------|---------------|-------------------------------|--|
|              | Per<br>Gallon                | Per<br>Gallon | Per<br>Gallon                 | Per Barrel   |
| 1918         | \$.2512                      | \$.0000       | \$.2512                       | \$1.8456   |
| 1919         | .2541                        | .0006         | .2547                         | 1.9452   |
| 1920         | .2974                        | .0009         | .2983                         | 2.9942   |
| 1921         | .2611                        | .0020         | .2631                         | 1.6249   |
| 1922         | .2482                        | .0038         | .2520                         | 1.5465   |
| 1923         | .2106                        | .0091         | .2197                         | 1.3116   |
| 1924         | .1946                        | .0148         | .2094                         | 1.3749   |
| 1925         | .2009                        | .0211         | .2220                         | 1.6160   |
| 1926         | .2097                        | .0241         | .2338                         | 1.7613   |
| 1927         | .1828                        | .0281         | .2109                         | 1.2448   |
| 1928         | .1790                        | .0304         | .2094                         | 1.1233   |
| 1929         | .1792                        | .0350         | .2142                         | 1.2195   |
| 1930         | .1616                        | .0379         | .1995                         | 1.1686   |
| 1931         | .1298                        | .0400         | .1698                         | .6719  |
| 1932         | .1330                        | .0463*        | .1793                         | .8659  |
| Jan. 1, 1933 | .1248                        | .0516*        | .1764                         | .7623  |
| Feb. 1, 1933 | .1141                        | .0515*        | .1656                         | .5719  |
| Mar. 1, 1933 | .1125                        | .0515*        | .1640                         | .5691†   |
| Apr. 1, 1933 | .1092                        | .0515*        | .1607                         | .5167†   |

\*Includes 1c Federal Tax since July 1, 1932.

**CRUDE PRICES AND GASOLINE PRICES**

|                              | AVERAGE GASOLINE<br>SERVICE STATION<br>PRICE<br>(EX. TAX) | WEIGHTED<br>AVERAGE<br>CRUDE OIL<br>PRICE IN U. S. |
|------------------------------|---|--|
|                              | Per Gallon  | Per Barrel   |
| Average 11 years (1918—1928) | \$.2263   | \$1.5761   |
| Average 8 years (1921—1928)  | .2109   | 1.4275   |
| Average 10 years (1923—1932) | .1781   | 1.2251   |
| Average 8 years (1925—1932)  | .1720   | 1.2004   |
| Average January 1, 1933      | .1248   | .7623  |
| Average February 1, 1933     | .1141   | .5719  |
| Average March 1, 1933        | .1125   | .5691†   |
| Average April 1, 1933        | .1092   | .5167†   |

† Preliminary

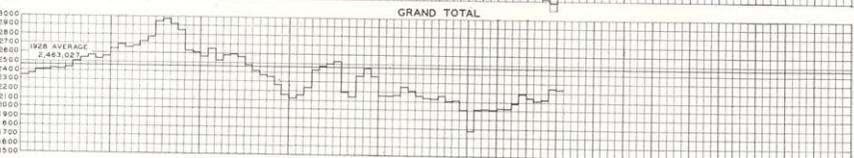
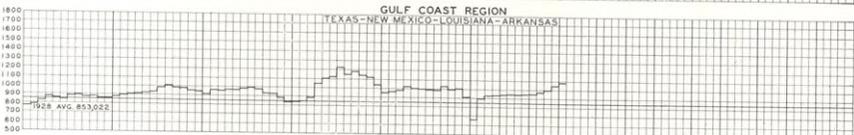
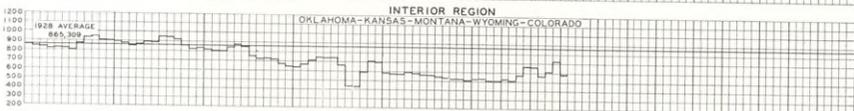
UNIVERSITY OF TORONTO



# DAILY AVERAGE CRUDE OIL PRODUCTION TOTAL UNITED STATES

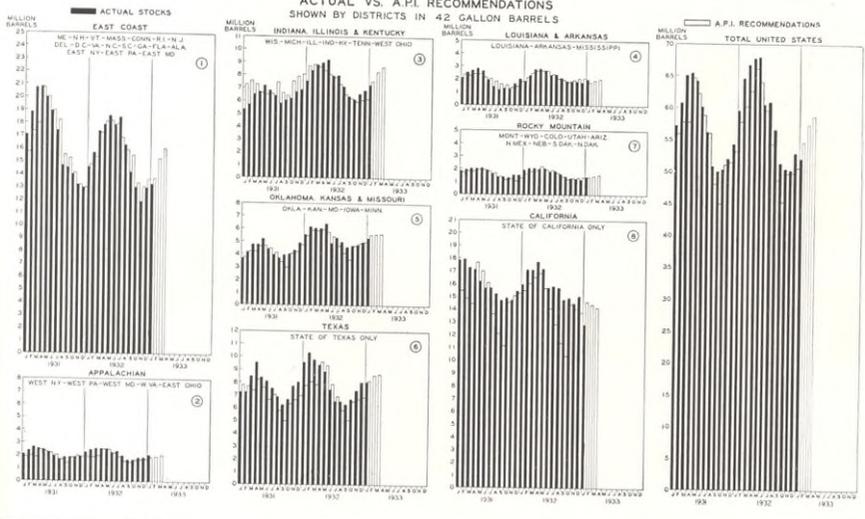
(Up to and including April 1)

SHOWN IN THOUSANDS OF 42 GALLON BARRELS



## REFINERY GASOLINE STOCKS LAST OF EACH MONTH IN UNITED STATES

As of January 31



F. CLANCY  
EXECUTIVE DEPARTMENT.

**LEAD**  
*with the*  
**leader!**



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