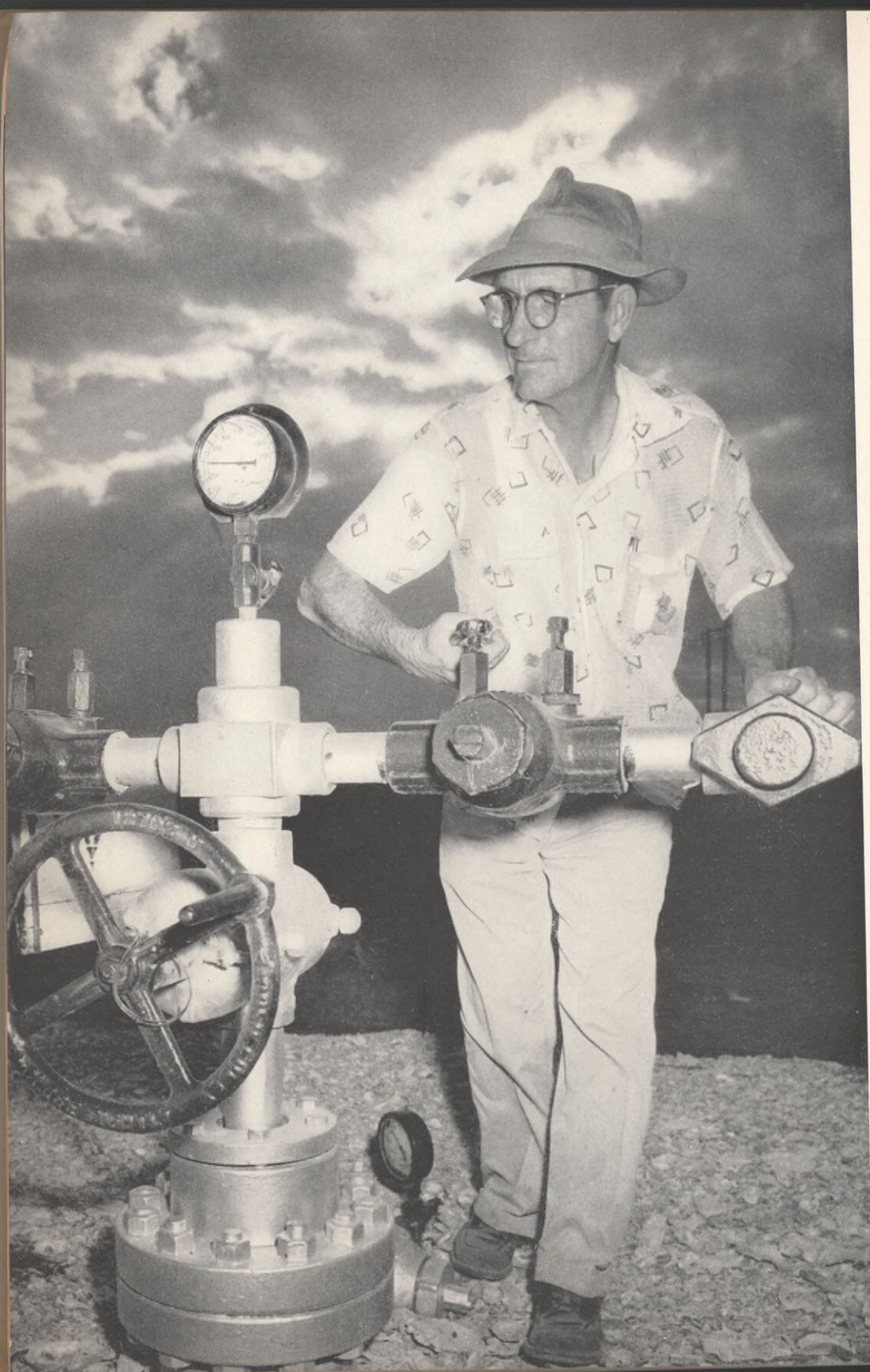
A stylized stained glass illustration of an oil pumpjack. The pumpjack is rendered in green with yellow, red, and white circular accents on its joints and valves. It is set against a background of purple, pink, and blue, with a yellow sun or moon at the top. The entire scene is framed by a black border with a grid pattern.

Winter • 1954-55

The **Texaco Star**





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# The Texaco Star

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A publication of

THE TEXAS COMPANY

135 East 42nd Street, New York 17, N. Y.

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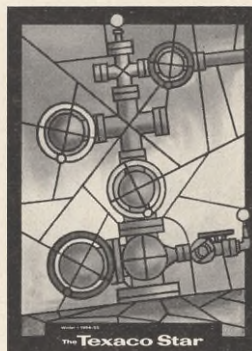
Ellis Prudden, Editor, THE TEXACO STAR; Keith de Folio, Staff Writer.

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Stage depletion (see Page 2) helps in finding oil reserves  
is the discovery marked by this "Christmas tree" near  
on. A small producer completed this well.



**THE COVER:** "This is the Christmas tree that stands all year long," said the artist. What the artist saw in petroleum's "Christmas tree" was a dramatic pattern of valves, gauges, and pipes. These are the devices that control the movement of oil from a flowing well (one in which gas pressure lifts the oil to the surface). Upon completion of a flowing well, the "tree" is connected with the tubing through which the crude rises in the well. A flow line leads the oil off to lease storage tanks. Christmas trees may range from four to 12 feet in height. Whenever you see a Christmas tree in an oil field, it means that another successful oil venture has been completed.

**CREDITS:** Covers—Front, Salem Tamer; back, Marilyn J. Miller; inside, Bert Brandt. Pages—2, 3, 5, Brandt; 6-7, Robert Isear; 8-9, Tamer; 17-19, Isear; 20-23, Brandt; 24, Bachrach, Pach Bros. Designer—Salem Tamer.



# THE COSTLY QUESTION:

*Will  
Oil  
Be  
Found*  
HERE?





**I** TAKE chances all right," remarked Stewart Boyle, an oil operator in Houston, Texas. Pointing at a photograph of a drilling rig on the wall of his office, he continued: "But I'm a lot more cautious than I used to be. . . . Today, I play the edge of the field."

Playing the edge of the field (which means that he secures farm-outs of drilling sites that border on proven oil fields) enables Boyle to reduce, somewhat, the element of risk inherent in drilling operations. "But in the past my debts have often exceeded my assets," admits Boyle. "When a well comes in, it's a long time before I see any profits. Operating costs and payments on bank loans eat up the revenue." He smiles wryly. "What's left over goes for taxes."

Declares Boyle with conviction: "Today, I may be above water; but, believe me, it was only the '27½ per cent' that saved me from bankruptcy long ago."

Stewart Boyle, who sells 25 per cent of his production to The Texas Company, was referring to the 27½ per cent statutory depletion allowance. In 1926, the Congress established percentage depletion—which allows an oil producer a deduction, in computing his Federal income tax, of 27½ per cent of his gross revenue from the sale of crude oil and natural gas. This deduction, however, is limited to one-half of the net profit, before taxes, of the producing property. And it applies only to income from production of oil and gas—not the income from refining, marketing, and other phases of the oil business.

Percentage depletion does not apply only to the oil industry. Metal mining, coal mining, sulphur mining, and many other extractive industries, including sand and gravel, operate under such an allowance at rates determined by Congress.

In enacting this law, Congress recognized that the hope, in the mind of the oil operator, of finding oil has the same function as the carrot dangling in front of the rabbit. The carrot makes the rabbit run, and the hope of reward for risk makes the oilman move—makes him drill *once more* in expectation of bringing in a well. He takes a big financial risk because there is that "carrot" before him: the opportunity of obtaining a fair reward for his efforts.

But there's a stumbling block. When

he sells his oil, he sells—or depletes—his capital. This vital fact—that crude oil is a wasting capital asset—is recognized in the percentage depletion provisions of the Federal income tax law. The Congress of the United States recognized that not only oil and natural gas, but all minerals in the ground, are capital assets of the owner. Once used, such assets can be replaced only by finding new supplies.

**F**OR 28 years, percentage depletion has worked in the public interest. The beneficial effect of the 27½ per cent depletion allowance is reflected in the replacement, over the years, of withdrawals of oil from the earth. At the beginning of 1954, there were an estimated 29 billion barrels of known crude oil reserves in the United States. Even though an average of 7.7 million barrels of crude and products are consumed daily, the nation's net oil reserves are increasing (see graph on Page 4). The "carrot" is always there—leading oilmen onward in the search for new oil fields. And the Congress has always found, in repeated re-examinations, that the 27½ per cent is a fair and necessary depletion allowance figure to insure a continuation of adequate exploration and development effort.

A good authority on the workings of percentage depletion is W. J. "Bill" Goldston, a Texas wildcatter who sells his crude oil to many refiners. "I'm a gambler at heart," says Goldston. "I wouldn't be in this end of the business if I didn't like long shots."

Bill Goldston, Stewart Boyle, and The Texas Company are typical of the oil operators in the United States (little as well as big and totaling in the thousands) who are constantly searching for oil. Regardless of an operator's size, the 27½ per cent depletion allowance can spell the difference between success and failure.

Like thousands of other operators, the Goldston Oil Corporation has been plagued by streaks of bad luck.

"From all our scientific data," says Goldston (trained as a petroleum geologist), "the Needville field near Houston should have been a big producer. My partners and I started drilling. After \$300,000 worth of dry holes, we got our first strike." He'll be surprised, Goldston says, if the production at

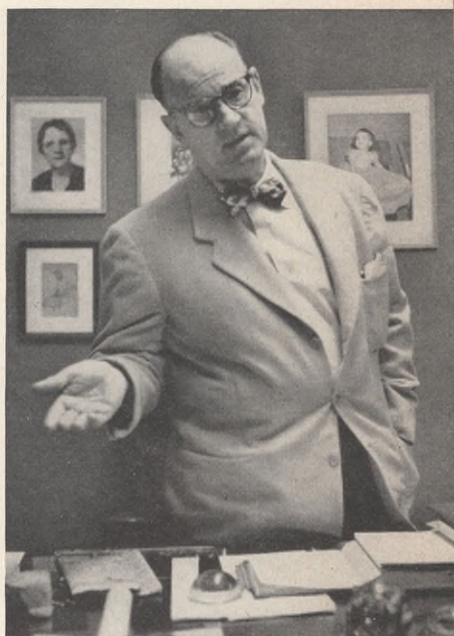
Needville will repay him and his partners for an investment that, today, runs over the \$3 million mark.

"The 27½ per cent depletion allowance on my good wells," states Goldston, "helped me pay for my dry-hole losses at Needville. I wouldn't be in business except for that."

Bill Goldston would rather talk about the big Denton field in southern New Mexico. In 1949, he and another producer drilled a \$400,000 wildcat that, luckily, touched off a major discovery. The Goldston Oil Corporation now has 11 producing wells and only one dry hole on their share of the 5,000-acre Denton field.

Summing up his good fortune, husky-voiced Bill Goldston says: "We waited a long while and it may never happen to us again." That it happened even once is because Bill Goldston went after that "carrot" and didn't stop.

**O**NE of the saddest oil stories to come off the plains of Texas concerns an operator who, in the past 15 years, has drilled 188 dry holes and 15



"Today, I may be above water," says Stewart Boyle, Houston operator, "but, believe me, it was only the '27½ per cent' that saved me from bankruptcy long ago."



## Big financial risks are taken by men when they go after that "carrot"—oil

"stinkers" (a well that isn't good enough to make money but is too good to be abandoned). Even though this plucky operator has lost nearly \$2.5 million on his dry-hole drilling, he is still hunting for oil.

How can he afford to lose so much money and still go on? Income from pre-1940 successes helps to finance his operations today. He also gets contributions from other operators who seek detailed geological data in the areas where he drills wildcat wells. Then there is the help from percentage depletion. Only in this way is it possible for this operator to keep trying for a well that may provide a new field to further increase the nation's oil reserves.

Actually, many operators aren't as fortunate as this one. Every year, hundreds of wildcaters go broke. Says Bill Goldston: "There are men walking the streets of Houston who are smarter oil operators than I am — but they got one dry hole too many."

The nation's thousands of small operators annually find a substantial portion of new domestic oil reserves through their wildcat drilling activity. They sell their oil to companies like

The Texas Company, which have transportation, refining, and marketing facilities. (Texaco buys approximately one-third of all the crude it refines.) The small operators and big producers are necessary to each other, and together they are necessary to the country and its economy.

**T**O assure the continued growth of America's petroleum industry, the incentive to maintain the "reward for risk" principle is both vital and necessary. An oil operator faces problems that do not confront a manufacturer. The maker of hardware, for instance, can determine in advance what his capital investment in property, plant, and equipment will produce. His main risk is the rate of earnings he will realize on his capital investment. But when the oil operator invests in drilling a hole in the ground, he is taking a calculated risk on whether or not it will produce oil.

Today, finding oil is more expensive than ever before. Drilling often must be undertaken in areas where operations are extremely costly; for example, in coastal waters. Drill bits have to bore deeper into the earth today. Since pre-

World War II days, the average cost per foot of a completed well has nearly quadrupled.

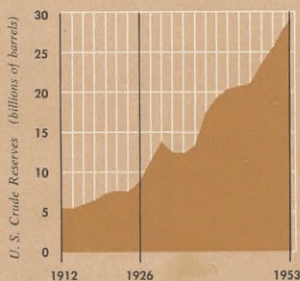
The average wildcatter in the oil industry, who spends about \$150,000 in drilling on a new site, gets a dry hole eight out of nine times. And there are no buyers for a dry hole. If he should make a strike, the producer faces another obstacle: a portion of his capital assets is consumed whenever he sells a barrel of crude. If he does not find more oil, and thus replenish his capital, he will inevitably sell all of his assets.

The roots of percentage depletion — the tax provision that "does something" about an oil operator's wasting asset in the ground — go back to 1913 when the first Federal income tax law made provision for a "reasonable" allowance for depletion of natural resource deposits. In 1918, Congress specified the use of discovery value for depletion. This led to so many administrative difficulties that in 1926 Congress made available the use of the formula now in effect.

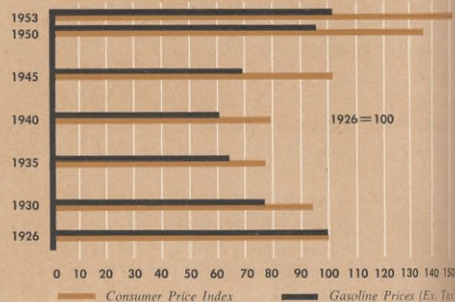
**W**HAT does the 27½ per cent depletion tax allowance mean to a major company, such as The Texas Company? In 1953, Texaco drilled—or had an interest in drilling—1,747 development, exploratory, and wildcat wells (21.4 per cent of them were dry holes) in the United States. This called for an expenditure of well over \$100 million. Application of the 27½ per cent depletion allowance provision partly paid for the cost of research, geophys-



**High costs** of deep drilling, from study of 40 wells in Louisiana, are shown here.



**Since 1926**, when percentage depletion was enacted, the increase in proved crude reserves has been accelerated, as this graph indicates.



**Percentage depletion** has been a major factor in the stability of gasoline prices. Other consumer prices have jumped way ahead of gasoline prices since the mid-Twenties.



cal and geological exploration, civil engineering, lease bonuses and rentals, drilling costs (labor, equipment, and materials), dry holes—and all other expenses up to the discovery and production of oil.

The vast expenditures and risks associated with the discovery of oil are aptly illustrated by Texaco's exploration efforts in the salt dome area of the coastal plain of Louisiana. It is not uncommon for several million dollars to be invested in exploratory work before any commercial oil production is found. If there were no depletion allowance to offset these abnormal risks and expenditures, there would be little incentive to assume further risks.

The faulted salt-dome structure of one location in the Gulf area is a specific example. Although it shows great promise, according to all scientific tests, Texaco has been drilling in this locality for nine and one-half years without encountering any oil. To date, the total deficit is \$4.8 million. Again, percentage depletion has enabled The Texas Company to continue the search for oil in this highly promising structure.

Without the allowance, the question, "Will oil be found here?" would find no answer. Reason: the financial risk would be so great that venture capital would not be available to push the search for oil.

As less oil was discovered, the law of supply and demand would work toward higher prices to the consumer for whatever supplies were available. But at the same time, in the long run, it would also work toward lower consumption of products and loss of volume and revenue to the oil companies, as well as loss of tax revenue to the Federal and state governments.

Even with the benefit of percentage depletion, over the past 25 years U.S. crude reserves have only slightly more than doubled whereas domestic consumption has trebled. Certainly, any reduction in the rate of percentage depletion would also reduce discoveries and would impair the ability of the petroleum industry to meet the ever-increasing demand for its products in the United States.

More to be feared than anything else

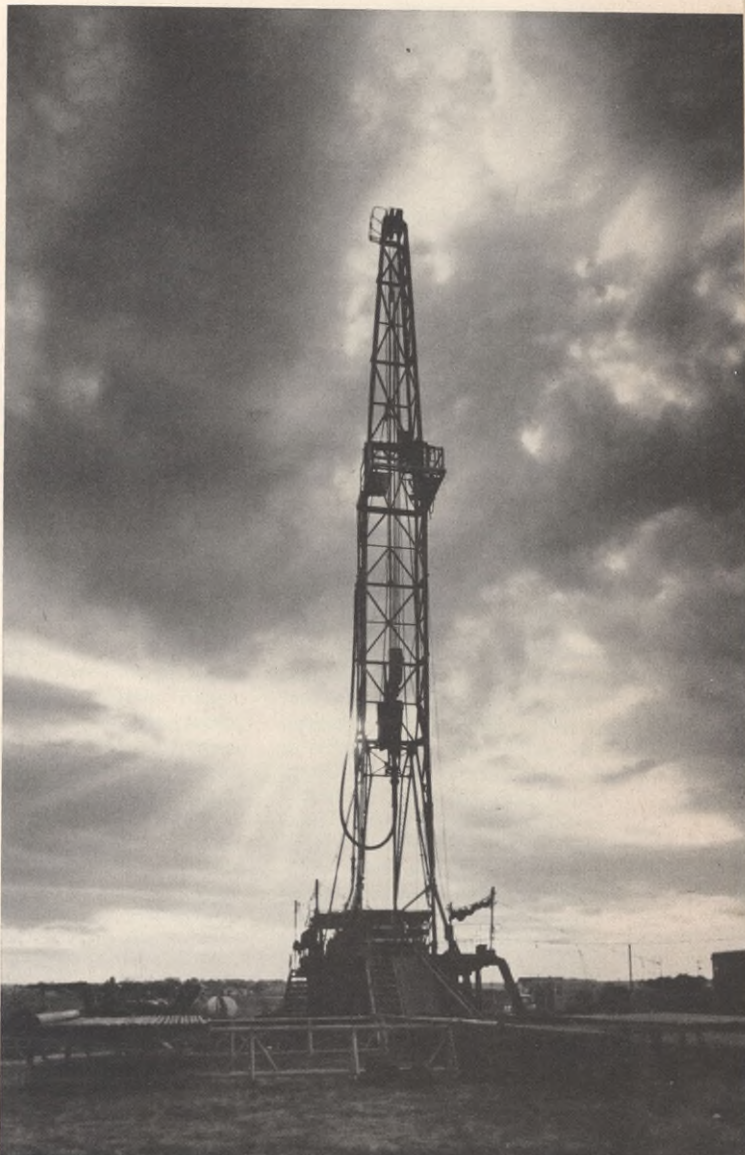
On the grass-tufted prairie south of Houston, Texas, a small operator sets up a rig and starts to drill a well. He may be lucky enough to find oil.

would be the risk of there not being a sufficient reserve of crude oil to supply our nation in the event of a war. If an adequate reserve did not exist before an involvement in war, it could not be created in time to be of real service in a national emergency.

THE answer to the question, "Will oil be found here?" must be "Yes!" It will be "yes" if the principle of the "carrot" is not weakened by altering the present statutory depletion allowance. The stubborn lone operator, drilling a rank wildcat, must be kept running after that "carrot"—oil. So must

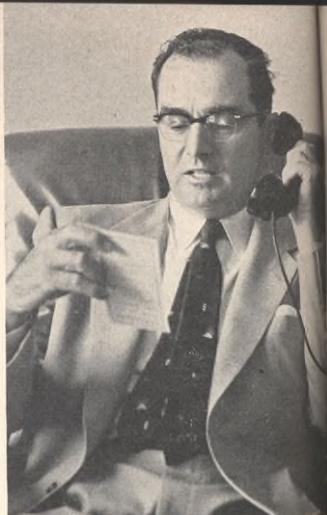
the major company which, of necessity, confines itself to pursuing well-calculated risks. In a nation and a world that are dependent upon oil, the search for oil must go on. **END**

*Editor's Note: It is important to know why percentage depletion is necessary in the hazardous business of exploring for and developing oil reserves. By understanding the facts, Texaco stockholders and employees can help to create greater appreciation of the fairness of the 27½ per cent depletion allowance and its importance in maintaining an adequate future supply of petroleum.*





## *Water boy makes good*



**JAMES W. FOLEY**  
*Vice President and Director*

AS a curly-haired water boy on a pipe line ditching crew in Texas, 15-year-old Jim Foley decided to work in the oil business all of his life. Jim grew up with the oil derricks (his father was a Texaco pipeliner) at Sour Lake, where The Texas Company made a historic oil discovery in 1903.

The boy who toted water for thirsty pipeliners is now Vice President of The Texas Company, and on September 20, 1954, he was elected to the Board of Directors.

After graduating in petroleum engineering from Texas A. & M. in 1932, at the age of 20, Jim Foley spent a year of "roughnecking" with a Texaco drilling crew. After this basic training, Foley used his engineering training to survey the vertical deviation of oil wells, measure bottom hole pressure, and chemically treat the mud at drilling sites.

By 1935, Jim was promoted to Petroleum Engineer in the Rocky Mountain Division. Two years later, he and his newly wed wife from Green River, Wyoming, were transferred to Bahrain Island in the Persian Gulf. Here he studied and was an adviser on drilling procedures for three years at The Bahrain Petroleum Company Limited, a part of Texaco's affiliate, Caltex.

On his return to the States, Jim Foley was assigned as a District Petro-

leum Engineer in Louisiana, and later was put in charge of drilling crews as a "tool pusher." In 1943, he was given a new assignment: superintendent of the gas-gasoline operations at Erath, Louisiana. The following year, he was placed in charge of gas-gasoline operations in the Louisiana Division. From 1947 to 1950, he held managerial posts in the Producing Department. He got into the heart of over-all producing problems: "...everything from working out budget figures to sending crude to storage tanks."

Further recognition carried him to New York, where he became Assistant to the Vice President in charge of Domestic Producing.

In the Fall of 1950, Jim Foley was named Assistant to the Chairman of Texaco's Board of Directors. In this capacity, good-natured Jim Foley represented The Texas Company at industry and governmental sessions in New York and Washington. His broad experience in Producing Department matters made Foley a valuable man in explaining the practical aspects of Texaco's position on crude oil imports, the depletion allowance, and steel requirements of the petroleum industry.

For nearly four years, Jim served as the working liaison between the Board Chairman and various Texaco depart-

ments. His tact and good judgment were put to the test in this job.

In February of 1953, he was elected Vice President of The Texas Company. Today, at the age of 43, James Walling Foley is Texaco's youngest Vice President and Director.

Jim also serves as a director of nearly a dozen Texaco subsidiaries and affiliates. This requires that he keep informed of all principal developments in these many companies.

Foley also watches Texaco's purchases and sales of liquefied petroleum gases, and follows operations of the Company's pipe line interests. He keeps in close touch with developments in Canada where they pertain to McColl-Frontenac Oil Company Limited, Texaco's Canadian manufacturing and marketing subsidiary.

In spite of his many duties, Jim Foley has time for some golf and a little vegetable gardening with his two daughters (Gretchen Ann, 13, and Nancy Gayle, 9) at his home in Scarsdale, New York. He often works on his tomato plants and hothouse-grown avocado trees. Mrs. Foley concedes that her husband may be an authority in petroleum matters, but she bars him from the flower beds. Says she: "Jim doesn't know the difference between a gladiola and a chrysanthemum."



## On top of the EASTERN HEMISPHERE



A. NEIL LILLEY, *Vice President and Director*

NEIL LILLEY moves fast when he's on a business project . . . the same way he plays golf," comments a close friend of this Vice President, who was also elected a member of the Board of Directors on September 20, 1954. "Once he hits that ball, he steps right after it." As Vice President in charge of Texaco's foreign operations in the Eastern Hemisphere, A. Neil Lilley moves with characteristic rapidity in keeping up with the Company's vast overseas interests.

There was a time in his youth when Neil wasn't so sure of his direction. After a year at Princeton, at 19 years of age, he joined a milling company in San Francisco as an office boy. He ended up four years later as sales auditor.

Then, after a three-year stint selling securities, Neil Lilley went into the securities business on his own. The market break in 1929 and the bearish years that followed led Neil to look to greener pastures.

In 1933, at the age of 28, Neil joined The Texas Company. He was given sales training in everything from "clerk in a bulk plant to operator of a Texaco service station." Lilley climbed through the sales ranks on the West Coast.

By 1939, he was Assistant District Manager, helping to direct Texaco

sales over several of the western states.

After the war, during which he advanced to the rank of major in the Air Force, Neil Lilley went to France in 1946 on a special assignment with The Texas Company. His job: to help reorganize the Societe des Raffineries de Petrole de la Gironde. This was no small task, considering that more than 500 bombs had practically wiped out this company's refinery near Bordeaux. "Lilley went into that bombed-out mess," says a prominent security analyst in Wall Street, "with his shirt sleeves rolled up." Three years later Neil Lilley became vice president and director of the French company.

During the Summer of 1949, Neil Lilley returned to the States to take a new position—General Manager of Texaco's Foreign Operations (Eastern Hemisphere). Two years later, he was elected Vice President.

As the head of Eastern Hemisphere operations, Lilley's principal job is to coordinate Texaco's policies and activities with respect to affiliates such as Arabian American Oil Company, The Texas Company (Iran), Ltd., and the Caltex Group of companies. This includes matters pertaining to exploration, producing, refining, and marketing.

Each day brings major issues from

all over the world to the Vice President's office. On Monday, he and his associates may discuss the construction of new Caltex refineries in Australia and the Philippine Islands. By Wednesday, a political crisis erupts in Southeast Asia. Before the week is out, a Middle East problem will require a speedy decision.

It is not at all unusual for Neil Lilley to board a plane at New York International Airport and fly to the Persian Gulf for an inspection of refining and producing facilities, then swing down to Africa for a tour of Caltex installations. On his next trip, he might fly to the Far East to look at drilling operations in Western Australia and in Sumatra, and to inspect the three Caltex refineries in Japan.

Lilley's role in the recent Iranian settlement demanded that he spend more than eight months overseas during 1954.

When Neil Lilley is at home, he tries to get out to the golf fairways occasionally. He shoots in the high 80's.

One thing that Lilley never does on his vacations is to travel, for obvious reasons. During the Summer, the Lilley family moves to Long Island, where Neil and his wife can swim and play with their two children, Alex, age 13, and Elena, who is 6. **END**





## *A matter of importance to YOU...▶*

**R**ECURRING efforts to enact Federal legislation that would arbitrarily restrict access to foreign oil are a matter of concern to all stockholders and employees of The Texas Company.

More than 80 per cent of Texaco's assets are invested in its domestic operations. Nevertheless, The Texas Company believes that oil imports should be allowed to supplement domestic supplies through the normal working of the forces of supply and demand, and feels that its position is in the best interest of its stockholders, employees, and the nation as a whole.

The Texas Company's statement filed recently with The Cabinet Committee on Energy Supplies and Resources Policy (a fact-finding group set up by President Eisenhower to recommend a national fuels policy) is printed in its entirety on the eight following pages.

It is believed that readers of THE TEXACO STAR will want to know the facts in this important policy statement.



# UNITED STATES' NEED FOR FOREIGN OIL



A POLICY STATEMENT OF THE TEXAS COMPANY

A statement filed with The Cabinet Committee  
on Energy Supplies and Resources Policy



## UNITED STATES' NEED FOR FOREIGN OIL

**T**HE CABINET COMMITTEE CHARGED WITH REVIEWING NATIONAL FUELS POLICY HAS BEFORE IT A VERY IMPORTANT TASK. AVAILABILITY OF AMPLE FUEL SUPPLIES IS CRUCIAL TO OUR NATION'S ECONOMIC AND MILITARY STRENGTH. TO ASSURE THE FUTURE IN THIS REGARD IS A VITAL NECESSITY.

The Texas Company is one of the oldest companies of the American oil industry, and we are engaged in both domestic and foreign operations. In presenting our views to the Committee we wish to concentrate particularly on one aspect of the fuels problem; namely, maintaining American access to foreign supplies of crude oil. Proposals have been made for legislation which would limit or jeopardize this access. In our judgment, the nation would be short-sighted indeed to adopt any such policy.

Proponents of restrictive legislation claim that imports of crude oil are undermining the vitality of the domestic crude oil producing industry. The Texas Company, as the second largest domestic crude producer, is convinced that this assertion is not borne out by the facts.

In the American business system, every industry experiences some upward and downward fluctuations from time to time. In recent months there have been moderate cutbacks in domestic crude production. But these cutbacks are not due to imports, which are at approximately the same level as last year. The cutbacks are due, instead, to domestic factors of a purely temporary character. All available evidence indicates that the level of domestic crude production will increase substantially within the next few months.

In the judgment of this Company, the temporary production cutbacks recently experienced by most domestic producers (including ourselves) provide no basis for reversing the

long-standing national policy of maintaining access to foreign crudes. Any such reversal would inevitably have unfavorable effects on both the nation and the industry.

A thorough appraisal of the problem reveals at least six main considerations which would make new legislative restrictions on imports of crude oil an unwise national policy. These considerations are as follows:

[1] The policy of relying on foreign crude oils as a supplement to domestic production has stood the test of time. Foreign crudes have proved invaluable to this nation in both World War II and the Korean conflict, and also in periods of serious peacetime shortages of domestic crudes.

[2] In the future, American petroleum requirements will undoubtedly increase, rather than decrease. Unless the consumer is to bear the brunt of petroleum shortage, higher prices, or both, full access to foreign crude supplies must be maintained.

[3] Legislative curtailment of crude oil imports would be directly inconsistent with the Administration's stated objectives of promoting world trade and encouraging American investment abroad. It would seriously impair the ability of foreign nations to buy American exports. In particular, any step which would entail legislative discrimination among friendly nations with whom America trades would be highly undesirable.



[4] A proposal has been made that would sharply restrict crude oil imports from the Eastern Hemisphere under what is erroneously described as a "reciprocal trade" policy. This proposal is directly contrary to our nation's long-standing Reciprocal Trade Agreements Program. It is clearly unthinkable as a basis for American commercial dealings with friendly nations.

[5] Crude oil import restrictions which would discriminate against Eastern Hemisphere supplies would be especially dangerous. An estimated 63 per cent of total world oil reserves outside the Communist area is in the Middle East alone. Any policy which would increase the risk of losing these oil supplies to the Communists would be gravely prejudicial to America's economic and defense potential.

[6] In fact, the domestic producing industry is a prosperous and healthy industry with an exceptionally strong growth trend. Well completions during the first nine months of the year were at an all-time peak. And while production of American industry as a whole has averaged more than 8 per cent below 1953, so far this year, output of the domestic crude producing industry has made the impressive showing of averaging but 2.6 per cent lower.

The following sections discuss these six points more fully:

## **Section 1: POLICY OF EXPANDING FOREIGN OIL SOURCES**

The need for foreign oil sources to help meet America's expanding petroleum needs has been recognized since World War I. The lessons of that war, and of the threatened petroleum shortage that followed it, gave rise to a high Government policy to encourage and even urge American oil firms to develop foreign sources of supply. The State Department became active in helping American firms gain parity with British interests in the Middle East, leading to American acquisition of large concessions in that oil-rich area. Important additional sources were opened up through American investments in Latin America and elsewhere.

World War II proved the wisdom of these policies. These foreign sources supplemented

the greatly expanded American production, thus making it possible, despite enemy action, to fuel American and Allied forces all around the world, while maintaining industrial and essential civilian supplies.

Moreover, American access to foreign oil added greatly to logistical strength and flexibility. American and Allied forces in the Pacific saved vast transport difficulties by utilizing petroleum supplies from the Middle East. During the war, notwithstanding the nearness of hostile forces, several American firms, including The Texas Company, built additional refinery capacity in the Middle East at the request of the Government.

As the war ended, civilian uses of petroleum were decontrolled and the American economy moved into a strongly expansionary phase, with greatly increased petroleum demand resulting. Foreign oil again proved an invaluable supplement to domestic production. This oil helped to avert a severe oil crisis on the American East Coast in the 1947-48 Winter. By 1948, imports of crude and products exceeded 500,000 barrels per day. During this period there were no less than 22 investigations of one kind or another being conducted with reference to the oil industry, mostly in regard to the petroleum shortage.

This experience led the Government, aware of the increasing Soviet menace, to re-establish as a matter of high policy the objective of expanding American access to foreign oil. American firms were again encouraged and even urged to use their capital for this purpose. As before, these firms responded with substantial new investments which involved very considerable risk of stockholders' money. Refining facilities were expanded although several years were needed for completion. New tankers were ordered and long-term charters were made. Additional pipe lines and other facilities were developed. The pace of exploration and development was accelerated. The time necessary to get this stepped-up program under way demonstrated once again that the oil imports faucet cannot abruptly be turned on and off.

The outbreak of the Korean War once again proved the wisdom of developing these supplemental American sources of oil abroad. Importation increased further and was unquestionably responsible for the fact that the American motorist was able to obtain his gasoline without



rationing, despite the Korean hostilities. Also, these supplies helped Western Europe to continue strengthening her economic and military potential. Again, transportation problems were eased by bringing considerable quantities of petroleum from Middle and Far Eastern sources to the Korean scene of operations.

More recently, to forestall the Communist threat to Iran and to assure American and other free world access to the massive Iranian oil reserves, the United States Government urged leading American oil firms to join with foreign companies in reopening Iranian production. Agreements between the companies and Iran have been signed which require large-scale investments by the American participants, including The Texas Company.

In summary, the American Government has had a consistent policy for many years of developing and maintaining access to American-owned foreign crude supplies. This long-standing policy has proved invaluable to the nation in periods of war, cold war, and peace, alike. Enormous investments have been and continue to be made abroad by American firms in pursuance of the policy. The structure of both the domestic and the overseas oil industry has inevitably developed on the assumption of continuance of the policy. Clearly, a heavy burden of proof and responsibility must be borne by those who would change this policy.

## **Section 2: LARGEST OIL RESERVES ARE ABROAD**

The United States, which accounts for some 60 per cent of total free world consumption of petroleum, has only about 22.5 per cent of free world crude reserves, even with peak levels of domestic exploration. This fact is basic to any appraisal of policies to assure the nation's future supplies of fuel. The importance of imported petroleum as an essential supplement to domestic production will unquestionably grow as time passes.

Oil, like other natural resources, must be extracted where it is found. We are fortunate as a nation to have large domestic oil supplies. These supplies have been a main contributor to the dynamic growth and high living standards of our country. But in the process, due to our enormous and growing annual consumption, we have drawn heavily on this vital re-

source. Modern exploration methods and large annual outlays for exploration and development continue to result in the finding of new oil deposits in the continental United States, so that we have larger proved reserves now than at any previous time. But as our more readily available domestic sources are used up, the finding of additional domestic oil reserves is growing more difficult and costly.

Meanwhile, there have been dramatic new discoveries abroad, and in comparison our oil resources have become among the most intensively developed in the world.

In the United States, at the beginning of this year, proved reserves were estimated at 29 billion barrels, roughly 12 times 1953 domestic crude production. For the non-Communist foreign areas, as a whole, however, reserves were conservatively estimated at nearly 100 billion barrels, roughly 50 times 1953 production in those areas. Moreover, although exploration in the foreign areas has been considerably less intensive than here, foreign reserves are growing much faster. Since 1948, estimated reserves of the rest of the free world have increased from around 45 billion to 100 billion barrels, or more than doubled. Over the same period, the huge outlays on domestic exploration and development in the United States have raised U. S. domestic reserves only from 23 billion to 29 billion barrels, or by about one-fourth.

Taking full account of the eventual possibilities of nuclear power and liquid fuels from coal and shale, it has been estimated (and we think realistically) that by 1975 United States petroleum consumption may be at least twice the 1950 level. Hence it appears inevitable that in the not too distant future domestic production will be incapable of providing as large a proportion as at present of the nation's total petroleum needs, except probably at uneconomically high exploration and development costs. At such a time, consumer groups will rightfully insist on expanding imports as a means of obtaining ample fuel supplies at reasonable cost.

The President's Materials Policy Commission under the chairmanship of William S. Paley, in reporting to the President, June 2, 1952, declared:

*"But no matter how large the nation's petroleum resources ultimately prove to be, one fact is now clear: eventually the resources will dwindle and become progressively inad-*



*equate. One warning signal has already appeared; within the last five years United States demand for crude petroleum has begun to outstrip domestic production, and for the first time, the United States has become an important net importer.*

*"This recent development suggests that the United States, faced with an approximate doubling of oil demand by 1975, will find it economical to turn increasingly to foreign supplies, and eventually to liquid fuel from shale and coal."*

The evidence is strong that the long-run trend is toward increasing American need for foreign petroleum. If we do not now plan along such lines, our economy will in the future be hurt by having to turn to more costly substitute fuel; the consumer will face higher prices or restricted supplies with adverse effects on the American standard of living; American relations with important foreign nations will be irreparably damaged; and our strategic position will be undermined. Any restriction now imposed on petroleum imports would intensify the present drain on American reserves, would leave us unprepared to meet future demand, and would deny the American petroleum industry the flexibility it requires to effect a gradual adjustment to future needs.

### **Section 3: OIL IN AMERICAN FOREIGN TRADE**

American policy with regard to foreign petroleum supplies has been carefully evolved over the years, through joint efforts of the Government and the industry.

Since 1932, when import duties were first imposed on petroleum and products, such restrictions have been progressively reduced. The main exception to this trend was in 1951-52 when a quota system was temporarily reimposed as a result of the 1950 abrogation of the Mexican Trade Agreement. The President in 1952 reviewed all aspects of the problem. As a result, the quotas were eliminated and tariffs reduced to their present level.

Minimal barriers against foreign petroleum are part and parcel of the basic foreign trade policies of this nation, as petroleum is one of the largest items in both our import and export trade.

The essentials of America's continuing ap-

proach to foreign trade have been most recently expressed in President Eisenhower's recommendations to Congress, based on the report of the Randall Commission. The President summarized these recommendations in the following words:

"Conceived as a whole, this program consists of four major parts:

AID—which we wish to curtail

INVESTMENT—which we wish to encourage

CONVERTIBILITY—which we wish to facilitate and

TRADE—which we wish to expand"

President Eisenhower has recently announced that he will give high priority to enactment of these recommendations in the next session of Congress.

Any legislation to impose additional restrictions on the importation of crude oil or petroleum products would be a move in the opposite direction from that recommended by the President. It is unrealistic to believe that the United States can maintain leadership in urging free nations to liberalize their trade and foreign exchange restrictions, if this country adopts policies of narrow economic nationalism.

Aside from violation of the trade principles to which our Government is committed, any substantial reduction in petroleum imports would seriously curtail the outflow of dollars which enables friendly nations to buy American exports. In 1953, petroleum imports, including crude oil, residual fuel, and other products amounted to three-quarters of a billion dollars, or slightly more than the total new funds appropriated for all foreign economic aid by the Congress recently adjourned.

In addition, the oil industry provides by far the largest single share in American foreign investments. In 1952 (latest year for which data are available) it accounted for \$586 million out of total American net foreign investment of \$1,726 million made in that year. Realistically, American oil firms cannot continue this level of investment abroad if further restrictions are placed on movements of petroleum to American consumers. Moreover, ill-advised action could gravely risk existing overseas investments of American stockholders.

Finally, the present pattern of petroleum importation reflects the basic American trade policy of non-discrimination among friendly na-



tions—the “most favored nation” principle. Petroleum imports are now all subject to a moderate tariff, so that each producing country has access to the American market on the same terms.

Maintenance of imports at adequate levels, maintenance of foreign investment at levels appropriate to America's status as the dominant creditor nation, and continuance of the basic policy of non-discrimination are all integral parts of the “Trade Not Aid” policy urged by the President. The Texas Company, as it stated to the Randall Commission last year, believes the President's “Trade Not Aid” policy is a vital necessity, to the benefit of the American taxpayer and consumer, and an essential for free world strength.

#### **Section 4: NON-DISCRIMINATION AMONG FOREIGN CRUDE SOURCES**

One widely publicized proposal recently made would involve virtual elimination of crude oil imports from the Middle East while encouraging crude imports from other areas. This proposal has been called by its authors a “reciprocal trade” program—which may mislead the public into believing that the proposal is along the same lines as the Reciprocal Trade Agreements Program which this nation has been following for 20 years and which President Eisenhower has recently recommended to the Congress as the heart of his foreign trade policy.

In fact, this proposal is the precise opposite of the Reciprocal Trade Agreements Program in both methods and objectives. It would have the effect of reducing American exports and imports, whereas the primary purpose of the Reciprocal Trade policy is to expand trade. It would discriminate sharply against imports from some areas in favor of imports from other areas, in contrast to the basic American trade policy that equal “most favored nation” treatment should be extended to all friendly nations. This principle has been the basis of American trade policy since 1922 and is included in numerous Treaties of Navigation and Friendship negotiated since that time. Also, the proposal entirely ignores the essential “triangular” character of trade among free nations, by which each nation strives to balance its transactions with all of its trading partners taken together, rather than with each separately.

There are other fallacies in the proposal such as the notion that American imports of one commodity, from various supplying countries, should be restricted in proportion to those countries' total imports of all commodities from here. It is unthinkable that any such trading principle would be accepted as a new basis for United States commercial dealing with other countries.

Clearly it would be folly for this nation, which enjoys a commercial export trade of over \$12 billion a year, to lead the world back toward the restrictive and discriminatory forms of trade that are inherent in this proposal.

#### **Section 5: THE IMPORTANCE OF EASTERN HEMISPHERE RESERVES**

No major industrial nation of the free world, including our own, has sufficient petroleum reserves to assure adequate supplies for the decades ahead. We and other free nations can foresee a sufficient and economical future supply of petroleum only on the assumption that access to the great reserves of the Middle East and the Caribbean can be maintained. The recent action of the American Government in urging American oil firms to participate in the reopening of Iranian production illustrates the continuing judgment of the Government as to the importance to America of these foreign reserves.

The Eastern Hemisphere contains about two-thirds of the entire free world's known reserves of crude petroleum, or about twice the total reserves of the United States, Canada, and Latin America combined. The Middle East area alone contains an estimated 81 billion barrels of oil reserves, or some 63 per cent of the estimated 128 billion barrel free world total. Under present world conditions it is crucial that no step be taken which Communist propaganda could portray as an unfriendly American act against the Arab world.

If by any ill-conceived policy the Middle East should be lost to Communist control, Moscow would have a stranglehold on the entire free world. The economic and the military power of virtually all of our allies would be at the mercy of communism. And America's future defense would have to be framed on the assumption of Communist control over the dominant part of world oil supplies. The effects on our long-term



economic and military potential strength relative to the Soviet bloc could be catastrophic. Clearly it would be ill-advised for our Government to acquiesce in any step which would alienate or discriminate against the Middle Eastern countries or other oil producing countries of the Eastern Hemisphere.

### **Section 6: VITALITY OF AMERICAN OIL PRODUCING INDUSTRY**

Some domestic oil producers have taken the position that import restrictions should be imposed since crude oil imports are, in their opinion, undermining the vitality of the domestic industry. The Texas Company, as the second largest domestic crude producer and with more than 80 per cent of its assets invested here in the United States, yields to none in its conviction that the nation's domestic producing industry must be kept strong and growing. But we are unable to find factual support for the viewpoint that the vitality of the domestic industry is threatened, or that imports are responsible for such production cutbacks as have occurred.

For the first nine months of this year domestic crude production has averaged about 6,360,000 barrels per day, according to official estimates. This level of production is but 2.6 per cent below the average for the like months of 1953, a very impressive showing in view of the fact that American industrial production as a whole has declined by more than 8 per cent over the same period.

There has been a small decline in the number of geophysical parties operating, and there are fewer rotary rigs at work than a year ago. The latter, however, is due at least in part to the more efficient use of drilling equipment. Actual drilling results—well completions—were at an all-time high in the first nine months of this year, 11 per cent above the like period of 1953.

The recent cutbacks in domestic crude oil production are clearly not due to crude imports, which have varied only by insignificant amounts from the level of last year when domestic petroleum production ran at a record pace much of the time. Rather, the recent cutbacks are due to domestic factors, particularly the excessive accumulations of petroleum inventories in late 1953 and early 1954, the warmer-than-average 1953-54 Winter, and the U. S. business let-down, which now appears to have stabilized.

Moreover, it is clear that these downward forces are of temporary character, and that domestic production will expand substantially within the next few months. Unquestionably, the industry will soon again be setting new all-time production records. This is a reflection of the strong position and dynamic-growth characteristics of the industry.

The facts are, in short, that the domestic producing industry continues strong and healthy. Recent production cutbacks are moderate, they are due to domestic factors rather than imports, and they are temporary. Under these circumstances, The Texas Company believes that requests for legislative aid by special interest groups within the industry are detrimental to both the industry and the nation.

At present, nearly all of the foreign crude oil brought into the United States is imported by firms with interests primarily in the domestic industry. The individual business decisions that in the aggregate determine the actual level of imports are, in consequence, made in full light of existing domestic requirements and domestic production trends.

The Texas Company, in view of the present slowdown in domestic production, has considerably reduced its imports. In the first nine months of this year the Company's imports of crude oil averaged 8 per cent below the same period of 1953.

The record shows that these independent decisions by members of the industry have, in fact, been consistent with strong vitality and growth in the domestic producing industry, which over the years has established an outstanding record as a "growth industry." This approach, moreover, has made a vital contribution to America's economic welfare and security, by enabling the industry to make flexible adjustments to long-run trends in America's petroleum requirements and to meet crucial emergency needs for petroleum.

It is clear that any legislated restriction, whether tariff, quota, or some hybrid scheme, would tend to rigidify the level of imports and to eliminate the required flexibility. Such a restriction, if related to this year's supply or demand for petroleum, would undoubtedly be out of line with the changing requirements and production availabilities of future years.



## RECOMMENDATIONS FOR A NATIONAL FUELS POLICY:

THE TEXAS COMPANY WISHES TO EMPHASIZE THE DANGEROUS CONSEQUENCES OF A SHORT-SIGHTED POLICY WITH RESPECT TO PETROLEUM AND THE CARDINAL IMPORTANCE TO THE NATION OF AN OVER-ALL FUELS POLICY FIRMLY GROUNDED ON THE CONTINUING NATIONAL INTEREST.

Policies regarding both our domestic and our foreign supplies of oil must be such that the development of each continues unimpeded and the production of each remains available as needed. Ordinary prudence requires that the country have both a healthy domestic oil industry and a healthy American-owned foreign oil industry.

We believe strongly that the Cabinet Committee should recommend policies which will:

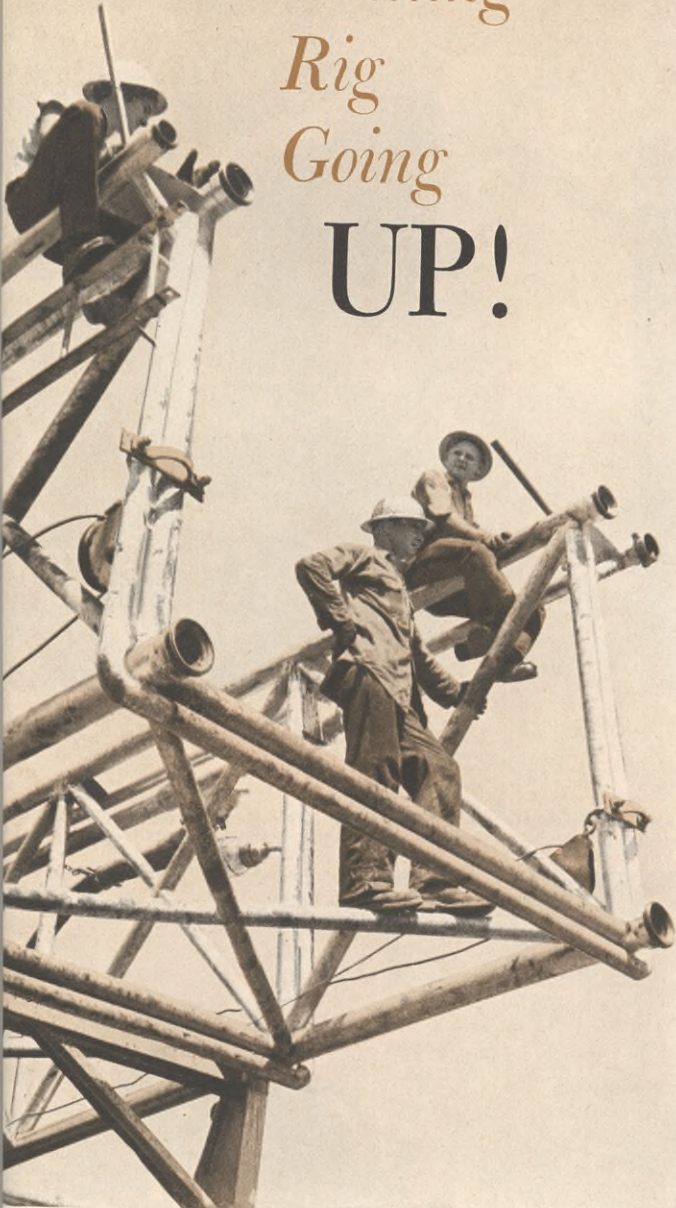
1. Continue to develop United States' domestic petroleum resources and hold in reserve substantial producing capacity to help meet emergency requirements.

2. Maintain, develop, and increase American-owned foreign reserves throughout the free world, in order to provide maximum flexibility for peacetime or wartime requirements.

3. Take no Congressional or other governmental action, whether tariff, quota, or other artificial control, which would rigidify or restrict the movement of foreign oil to meet American needs.

4. Continue the policy of equal treatment of all friendly nations, and avoid any measure which would favor any foreign country and discriminate against others.





# Drilling Rig Going UP!

*In a matter of hours  
drilling starts  
at a new location*

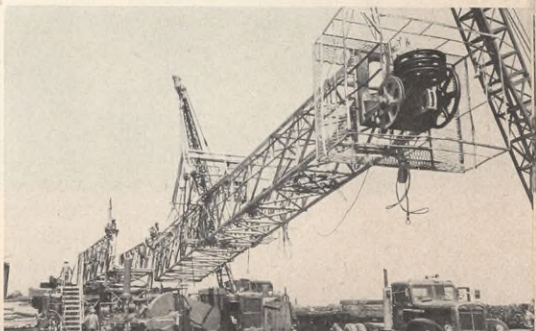
**M**ORE than three drilling rigs a day, on the average, go into action to support Texaco's year-in-and-year-out search for oil in the United States.

The pictures on this and the following two pages show a portable-type rig, under contract to The Texas Company, being erected near Bakersfield, California. It's a job that can be done in just a few hours. Portable rigs can be moved to a new location without complete dismantling, thus affording important savings in rigging-up time. Their use is favored in many areas where only moderate drilling depths are called for.

Domestic producing operations are expected to account for almost 50 per cent of Texaco's proposed capital expenditures of more than \$1 billion over a five-year period that began in 1953. In allocating such a large proportion of capital expenditures to producing activities The Texas Company is continuing its very essential policy of maintaining current production and crude oil reserves at adequate levels.

*(continued on following page)*

**1** Sections of portable "mast" are aligned with aid of auxiliary crane. ▶ Much rigging-up time is saved where such masts can be used.





*Drilling  
Rig  
Going*

**UP!** *(continued)*



**2** Top and bottom portions of tubular-steel mast are slowly pulled together.



**3** Getting the last bolts in place calls for some strenuous hauling—first in one direction, then in another.

**4** A little heavy hammering and the two sections of the mast are truly joined. It only takes a few hours to erect a portable drilling rig.



**5** Hand signals tell the operator of the hoisting unit what to do next and coordinate the work of those on mast.







**6** This crane starts mast toward erect position. Another will complete job.



**7** As soon as the mast is in a vertical position its hinged legs are secured to the substructure.



**8** There are other chores to be done when mast is up. END









*From 50,000,000 acres  
in East Texas comes  
the raw timber that makes  
the story of newsprint*

## *From Pines to Presses*

**S**TRANGE as it may seem to oilmen, lumbering was the first major industry in Texas. Deep in the piney woods of East Texas are hundreds of sawmills and wood processing plants.

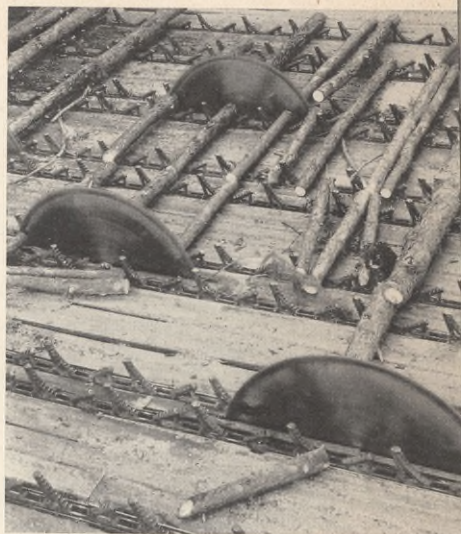
However, it wasn't until 1940 that the first newsprint was manufactured from slender, graceful Southern pine at Southland Paper Mills, Inc. Just down the road from Lufkin, Texas (pop. 15,135), the Southland mill rolls out 800 miles of newsprint every day.

The mill's two newsprint machines (each one is a block long) produce the 19-foot-wide sheets that are cut and shipped in rolls to more than 100 newspapers in the South. On the presses, printer's ink records the daily unraveling of history on the paper.

**T**HE Southland mill is one of the great number of paper mills in the United States that use Texaco products. Lubricating oils and greases, combined with on-the-job assistance from a Texaco lubrication engineer, help to maintain Southland's production. Daily capacity: 400 tons of newsprint plus 70 tons of paperboard products.

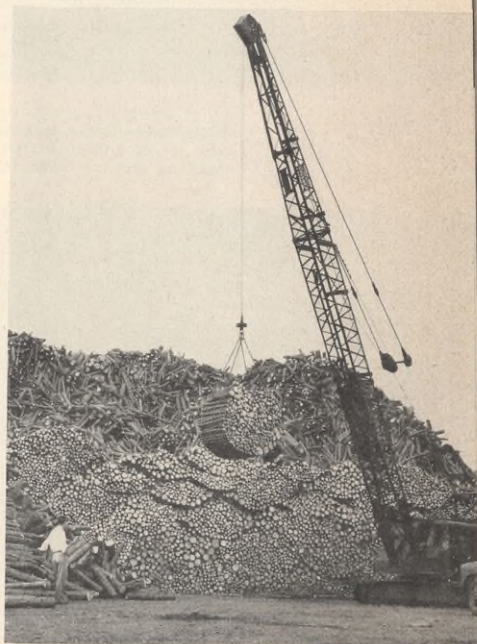
Since turning out its first roll of newsprint, Southland has been a user of Texaco products on conveyor belts, gears, and bearings. All of the mill's electric motors are lubricated by Texaco. Lubricants developed in Company laboratories help Southland's machines run clean, cool, and smoothly. Says Southland's head oiler: "I didn't lose a single bearing last year . . . out of 75,000 in the mill."

To the visitor, a newsprint mill is a thing



The bearings of the electric motors that drive these slasher saws are grease lubricated by Texaco Regal Starfak 2.

A Texaco grease is used on the cable drum bearings of this tractor crane, which swings hundreds of cords daily atop the "woodpile."



barked pine logs move to the grind-  
Texaco lubricating oil keeps the  
conveyor chain free from rust.



*To produce 800 miles of paper daily, huge, complex machines feed on a mountain of pine logs*

of loud noises and strong smells. Odors of acid, chlorine gas, and pulp surround the plant. The hissing of steam entering the "digesters," the gushing of thousands of gallons of water in the washing and bleaching processes, the ceaseless drone of 4,000-horsepower electric motors—all this reaches a cacophonous climax when one enters the huge room which houses the thundering newsprint machines.

**T**HE making of paper pulp begins when four-foot lengths of pine logs are debarked in a revolving cylindrical drum. Then the logs are pulverized into "groundwood" by grinder stones weighing six tons apiece. This groundwood is put through a series of screenings and washings. Finally, it is blended with bleached chemical pulp to make the newsprint cohesive.

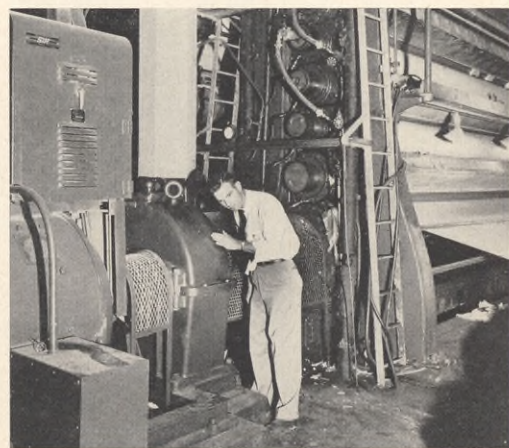
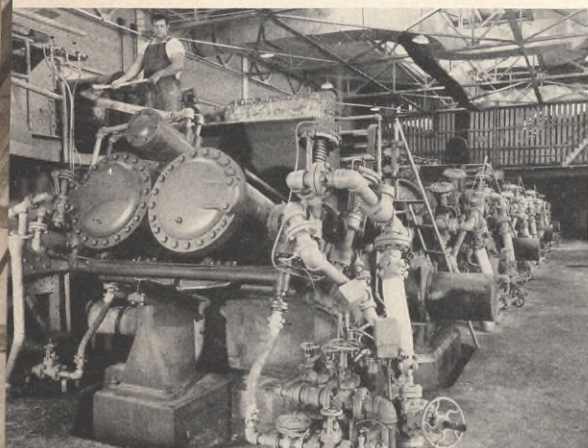
From the moment the watery mass of pulp moves onto the Fourdrinier,

races through the dryer section, and emerges as a smooth, slick sheet of newsprint—only 15 seconds have elapsed. Traveling at 2,000 feet a minute, the wet pulp is squeezed, pressed, steam heated, dried, and calendered (or ironed smooth) by steel rolls. The miraculous result is a seemingly endless sheet of white newsprint. The rolls of paper are cut, weighed, and moved by freight trains to the printing plants of newspapers in Texas, Louisiana, Oklahoma, Arkansas, and Mexico.

Throughout these papermaking steps, the Texaco lubrication engineer gives advice on the quantity and type of lubricants. Texaco products and engineering services contribute to the manufacture of newsprint as well as to other types of paper.

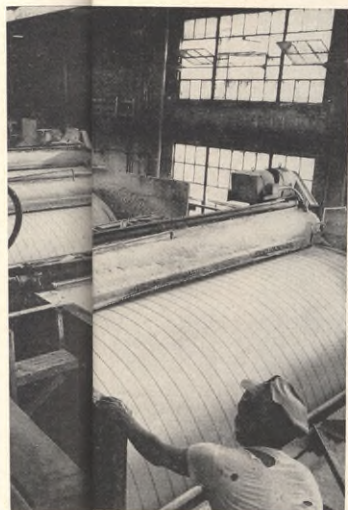
At industrial plants throughout the country, the products and services of The Texas Company are contributing to our national economy. **END**

**Mill employee** (upper left) slides logs into open bin of grinder. Bearings on grinder shaft keep cool in a Texaco lubricant.



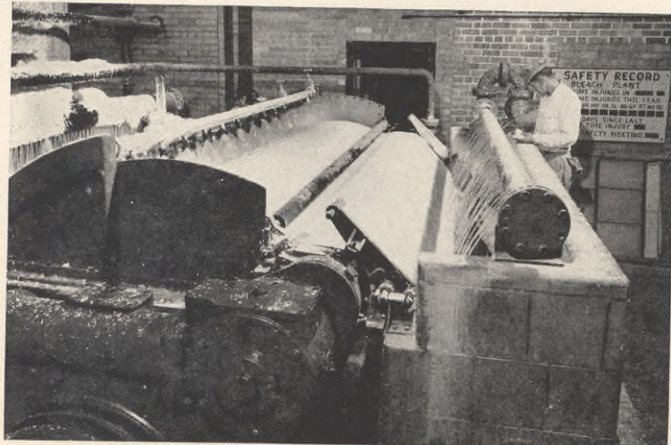
**Dale Wilkerson**, Texaco's lubrication engineer who checks product performance at Southland, tests temperature of gear case.





The pulp rotates on these vacuum filters, where many of the gears are lubricated with Texaco products.

Meropa Lubricant 6 improves the performance of the gears in this chlorination washer, where a series of water sprays remove bleach from the pulp.



Finished newsprint comes off calender stack. These steel rolls and the dryers are lubricated by recirculating Texaco Paper Machine Oil HD.





ROBERT FISHER  
*Financial Vice President*



STANLEY T. CROSSLAND  
*Vice President and Treasurer*

## *They will handle* **TEXACO'S FINANCES**

**T**HE election of Robert Fisher as Financial Vice President and Stanley T. Crossland as Vice President and Treasurer, both effective January 1, 1955, was announced by J. S. Leach, Chairman of the Board of Directors, on November 22, 1954.

Mr. Fisher, who was Treasurer of The Texas Company, succeeded L. H. Lindeman, who retired on December 1, 1954, after 44 years of service.

Stanley Crossland comes to The Texas Company with a broad background of financial and banking experience. Upon the creation of the Reconstruction Finance Corporation, he served in various capacities, primarily as executive vice president of the Rubber Reserve Company, a Government organization handling the synthetic rubber program. He was also vice president

of the War Damage Corporation. Mr. Crossland has been associated with the First National Bank of Chicago and was bank examiner for the Chicago Clearing House Association. He joined Ethyl Corporation in 1945, and at the time of his election as a Texaco officer, he was vice president, treasurer, and director of Ethyl, Ethyl Antiknock, Ltd., and Ethyl-Dow Chemical Co. His residence is in Harrison, New York.

Robert Fisher joined The Texas Company on May 2, 1910, and has held many positions including Assistant Cashier, Cashier, and Assistant Treasurer. In 1949, he was elected Treasurer of the Company. He is also a director of McColl-Frontenac Oil Company Limited, Texaco's Canadian manufacturing and marketing subsidiary. Mr. Fisher lives in Tappan, New York. **END**

**On his rounds** of a newsprint mill, a Texaco lubrication engineer checks performance of the Texaco lubricant used on bearings of a steel "tire" that supports this rotary kiln. This visit is typical of the calls that engineers from The Texas Company make daily on American mills and factories.



o lub  
Texa  
e' th  
oical  
ompa  
es.

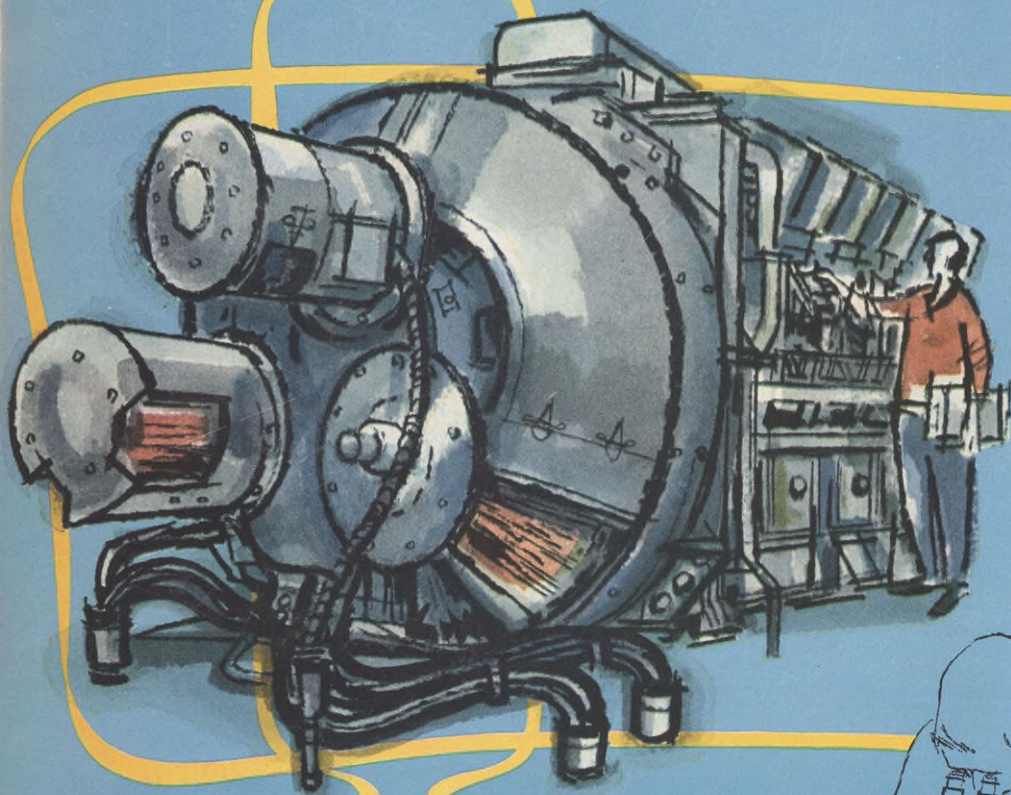




## TESTING FOR PROGRESS

Thousands of experimental products are developed and tested in the research laboratories of The Texas Company. To evaluate performance of fuels and lubricants under actual operating conditions, Texaco laboratories are equipped with many examples of the "real thing," such as a mighty Diesel locomotive engine (*below, left*).

On the other hand, a microchemist may study the electro-deposition of a fraction of a milligram of copper on a tiny platinum electrode (*below, right*). Regardless of the size of the equipment used, all Texaco tests are aimed at the same target—the best refining processes and the finest finished products.



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