

C O P Y

THE WHITE HOUSE
WASHINGTON

May 29, 1950.

Dear Mr. Carter:

I appreciated very much yours of the twenty-second enclosing copies of correspondence between Mr. McFall, Lindley Beckworth and yourself. It makes interesting reading. I am having the situation investigated.

For your information we sell Five Hundred Million Dollars worth of farm products, principally eggs, chickens and frozen beef to Venezuela. It is paid for with oil. We could sell a like amount of goods and services to Mexico if the Mexican oil development were carried to its logical conclusion - all of that I am sure without injury to the oil industry of the United States.

I have been making some comparisons between postwar and prewar consumption and production of oil. The increase in the domestic oil production, and domestic oil use, is fantastic and one of the reasons is because the people are able to buy oil and in order to be able to buy oil they have to sell their own products at a profit. Naturally I want the oil business and oil production business to be as successful as any other business in this country. I think you will find one of the difficulties is brought about by the big companies, which own foreign production and whose objective, of course, is to put the little independents out of business - that I am trying to stop.

Sincerely yours,

/s/ HARRY S. TRUMAN

Honorable Amon G. Carter
Post Office Box 1036
Fort Worth, Texas

DEPARTMENT OF STATE

W A S H I N G T O N

In reply refer to
PED 411.006/4-1250

MY DEAR MR. BECKWORTH:

I have received your note of April 12, 1950 and the editorial concerning oil imports which appeared in the Fort Worth Star-Telegram on April 9. Your courtesy in bringing this material to the attention of the Department is appreciated.

Differences of opinion on such a complex problem as that of oil imports are understandable. An editorial opposing the Department's opinion of the present and prospective situation would not, merely because of that fact, lead the Department to comment on it. The editorial of April 9 which appeared in the Fort Worth Star-Telegram is so completely misleading and so inaccurately represents the Department's views on the oil import question that some comment on it seems desirable

It appears doubtful that the writer of the editorial read carefully Mr. Thorp's statement on April 5 before the Special Subcommittee on Petroleum of the House Committee on Interstate and Foreign Commerce concerning oil imports. Had he done so it would be difficult to understand how he could have written, "And never before has it been made so plain that continuation of this flood of foreign oil will have the backing of the State Department as a matter of official policy regardless of the harmful effects it might have upon the petroleum industry in this country and upon the vital interests of the nation itself." The writer apparently reached this completely erroneous conclusion partly because of Mr. Thorp's statement that American companies, including oil companies, operating abroad "deserve and should receive the strong support of the Government."

It is regrettable that readers of the Star-Telegram should be so misinformed regarding the Department's policy.

Mr. Thorp, after stating the basis for the Department's interest in petroleum questions said "the Department's necessary interest in the foreign aspects of American oil operations, and in the effect on our foreign relations in decisions regarding petroleum, should not be interpreted, as it sometimes seems to be, as an indication of a lack of interest in the domestic industry. That is not the case. We believe, however, it is essential that our position on oil questions, as on other questions, be based on the total national interest, which is frequently a broader concept than the special interests of particular segments of the United States economy. We also believe that American concerns operating in foreign areas are no less American because they operate abroad. Both as corporations and as employers of American citizens, their example, their activities and their contributions to industrial development and economic well being abroad may be more influential in promoting a democratic way of life and free enterprise than any governmental actions. American business interests abroad, of which the United States petroleum industry is the largest, deserve and should receive the strong support of the Government."

The Honorable
Lindley Beckworth
House of Representatives

This statement was a request for recognition of the fact that the interests of the United States in relation to petroleum are manifold neither exclusively domestic nor foreign. It could not be correctly interpreted as a policy of sacrificing the domestic industry, as the editorial infers. Mr. Thorp's further statement should dispel doubt on the point if any existed. He said "The Department of State has no doubts about the need for a strong and active domestic oil industry. The Department would cooperate fully in measures necessary to prevent serious injury should imports threaten the domestic industry."

The editorial acknowledges that a superficially plausible case can be made that imports have not lead to a curtailment of drilling activity. The facts are that for the nation as a whole, and Texas in particular, 1949 was a better year in this respect than was 1948. Moreover, the record for 1950 appears so far to be better than in 1949, lending support to the forecasts that 1950 would be a year of continuing activity at record or near record levels. Not only in drilling but in most other respects 1949 was a year of near record activity, which appears likely to be maintained or exceeded in 1950.

The editorial states that "if the absurd policy supported by Mr. Thorp had been in effect before World War I or World War II we could have won neither of these wars, and if it remains long in effect we not only will be inviting World War III, but will be putting ourselves in a position where we will certainly lose it." Such sweeping conclusions seem entirely unwarranted and unnecessarily alarmist.

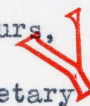
The present policy of not restricting imports in the absence of serious injury or threat of serious injury to the domestic industry is not a new policy. It is a policy which was in effect before World War I and World War II. The fact that imports were at a lower level quantitatively speaking in the earlier period than they are at present does not change the fact regarding the sameness of policy. The Department of State, to whatever degree it has influence in such a matter, would not have countenanced serious injury to the domestic industry in the earlier period nor would it do so today. The Department is fully aware of the predominant value of the domestic industry from the security standpoint. It is aware, too, of the generally acknowledged fact that in the event of war we will need oil from American production overseas. It also considers the political and economic stability of the Middle East important. To state, however, that the latter two facts lead the Department to the conclusion that "developing oil fields under the shadow of Russia's might is more in the national interest than developing our own," is not only erroneous, it is irresponsible. Mr. Thorp, contrary to the editorial, made no such statement.

The Department is aware that curtailment of production in Texas has reduced the income of the State and of many producers. That curtailment is not typical of the domestic industry as a whole. Over 90 per cent of the reduction in national output has occurred in Texas, which reduced production in 1949 17.3 per cent from 1948 levels, while the rest of the country was only 1 per cent below 1948 levels. The fact that there was no counterpart in 1949 of the substantial additions to stocks which characterized 1948 production and the fact that reductions in domestic output are not equitably divided among producing States have been far more important factors in reducing output in Texas in 1949 than has the increase in imports which took place since production in Texas was at its peak.

It is a complete misrepresentation of the Department's position to state that "because the producers and importers of foreign oil are chiefly American companies, Mr. Thorp places the welfare of these few concerns above the welfare of the many dependent upon the domestic petroleum industry and allied businesses." The Department has never taken the position that the interest of the few American companies in the foreign field are of paramount interest. The Department position in respect to the commercial interests involved would be more fairly summarized by reference not only to the American companies producing abroad, but also to the many American stockholders whose interests are connected in part with foreign oil operations, and even more important the many American companies and American workers whose export sales are dependent in large part on foreign income from the operations of American oil companies. Together these represent a substantial body of Americans whose interests as well as those of domestic oil producers and allied businesses should also be considered.

The problem of what should be done about imports of oil is difficult enough at best in view of the many important American interests at stake. Careless and irresponsible reporting on the issue makes the problem even more difficult.



The editorial enclosed with your communication is returned herewith.

Sincerely yours, 

For the Secretary of State:

/s/ JACK K. MCFALL 

Jack K. McFall
Assistant Secretary



FORT WORTH STAR-TELEGRAM

MORNING

EVENING

SUNDAY

AMON G. CARTER, PRESIDENT

FORT WORTH, TEXAS

May 20, 1950.

Honorable Lindley Beckworth
House Office Building
Washington, D. C.

Dear Congressman:

Thank you for forwarding to us the letter from Assistant Secretary of State Jack K. McFall, commenting on the editorial appearing in the Fort Worth Star-Telegram of April 9, entitled "Oil Import Policy Neglects U. S. Safety." Mr. McFall's somewhat intemperate comment on our views, we think, itself calls for some comment.

As Mr. McFall says, differences of opinion on a problem as complex as that of oil imports are understandable. But the basis of conflict between our view and that of Mr. McFall (and presumably of the State Department) is simple. Mr. McFall's apparent position is that heavy and increasing oil imports offer no threat to the domestic petroleum industry, and that if they did, questions of national interest would more than outweigh the damage done. We hold that the supplanting of domestic oil with foreign oil not only is hurting the domestic industry but that its continuation threatens eventual destruction of an industry of prime economic importance in peace and vitally essential in war. To us, if not to Mr. McFall and the State Department, it seems clear that any serious weakening, actual or threatened, of so indispensable an industry is a matter acutely affecting the national security and the national interest.

While the difference of opinion, reduced to these terms, is simple, it is basic and fundamental. It does not bulwark his own position for Mr. McFall to brand the expression of our sincere views on what we consider a matter of high importance as "careless," "misleading" and "irresponsible." Parenthetically, we wonder if our editorial support of American foreign policy in nearly all its phases, our defense of the State Department against charges that it mishandled the China situation, and our defense of Secretary Acheson and his department against personal and political attack, would be classed by Mr. McFall as careless, misleading and irresponsible.

Mr. McFall accuses us of misinterpreting the State Department's policy as outlined by Assistant Secretary Thorp in his testimony on April 5 before a subcommittee of the Senate interstate and foreign commerce committee. We do not believe we were guilty of so doing. Mr. Thorp did say on that occasion that the State Department has concluded that oil imports constitute no threat to the domestic industry, which was reiteration of a previously expressed attitude. He did say that oil import restrictions would hurt the operations of U. S. companies abroad, and further that these companies "deserve and should receive the strong support of the government."

What other conclusion is to be drawn from these statements than that the State Department backs the policy of continued heavy imports of foreign oil by these companies, either regardless of their harmful effect upon the domestic industry and the interests of the nation or because the department has blinded itself to this effect? Mr. Thorp's assertion that the department's interest in the foreign aspects of American oil operations should not be interpreted as lack of interest in the domestic industry is not impressive. This mild protestation is contradicted both by the remainder of his statement and by the course which the department has followed and continues to follow.

Mr. McFall implies that all doubt as to the department's interest in the domestic industry should be dispelled by Mr. Thorp's further assertion that "the department has no doubt about the need for a strong and active domestic oil industry" and that it "would cooperate fully in measures necessary to prevent serious injury should imports threaten the domestic industry." We wonder how Mr. Thorp or Mr. McFall complacently can conclude that an inflow of 879,000 barrels of foreign oil a day, displacing domestic oil in the markets of this country, constitutes no "threat of injury." According to Mr. McFall's own figures, the necessary curtailment of petroleum production in Texas in 1949, as compared to 1948, was 17.3 per cent. For the country as a whole the production cutback was 8 per cent. How can Mr. McFall be certain that this lost production is not the crucial difference between a healthy and a seriously weakened domestic oil industry? In the face of recently rising demand for petroleum products, how can he say that imports have played little or no part in the decline in domestic oil production? Daily per well allowable production in Texas has dropped from 24.7 barrels in 1947 and 23.1 barrels in 1948 to 16.9 barrels at present. Texas wells are restricted now to only 18 producing days a month. Can Mr. McFall deny that at some point in this downward curve of production the law of diminishing returns begins to operate? This point, of course, is not the same for all wells. And as it is reached, can Mr. McFall assert that there is no discouragement to the drilling of more high-cost wells?

The contention of Mr. McFall that the domestic industry has not been hurt seems to be based almost entirely upon the continuation of drilling activities into 1950 at a high level. In Texas, where 45 per cent of the domestic production centers, a great part of this activity has been in one area, the prolific new field in Scurry County. As more wells are drilled the total number of wells to be brought within a drastically reduced allowable is increased. It is obvious that this process can not continue indefinitely and that curtailed drilling and exploration, plus abandonment of many marginal wells, inevitably must result if the cause of diminished output continues. Yet Mr. McFall apparently would follow a policy of locking the barn door only after the horse has been lost beyond any hope of recovery.

Mr. McFall states that the present policy of not restricting oil imports is not new, that the same policy was in effect before World War I and World War II. That is only partly true. As early as 1932 Congress recognized the threat of oil imports to the domestic oil industry and the domestic economy and sought to protect against this threat by imposing an excise tax on the importation of crude petroleum and petroleum products. In the agreement with Venezuela in 1939, the rate of this tax was halved, but only on imports up to 5 per cent of the total quantity of oil processed

in the United States. This was tacit recognition that the domestic industry might be injured by oil imports in excess of 5 per cent of domestic demand. The policy thus established by Congress of protection to the domestic industry from excessive oil imports was completely set aside only when the Mexican agreement was negotiated in 1943 and by the multilateral agreement at Geneva in 1947.

There is no disposition on our part to deny the need and the desirability of some oil imports into this country. But the 5 per cent figure which Congress evidently recognized as the danger level for the domestic industry and the nation's economy is worth noting. For the tide of imports since the end of World War II has risen steadily above that level. For the year 1949 imports constituted 10.5 per cent of total petroleum supply in the United States. For the first quarter of 1950 the figure rose to 13.1 per cent.

We agree with Mr. McFall that the interests of American companies producing abroad, their stockholders in this country, and American firms and workers affected by these foreign operations should be considered. However, we do not believe their interests should be paramount to the interests of the vital domestic oil industry, or that concern for the interests of these foreign operations should be so blindly zealous as to jeopardize the national interest and national security. And that is what we believe will be the inescapable result of the policy the State Department is pursuing.

In such terms as "entirely unwarranted" and "unnecessarily alarmist," Mr. McFall takes us to task for stating that if we had been heavily dependent upon foreign oil at the outbreak of World Wars I and II we could have won neither of them, and that if we make that mistake now we not only will be inviting World War III but almost certainly will lose it. Yet, consider. Our sources of foreign oil were promptly cut off in World War II by enemy action. Submarines ranging close to our shores made it impossible for oil to be delivered in sufficient quantity by water from Gulf Coast points to the eastern United States, making it necessary to use great quantities of precious steel to build the "Big Inch" and "Little Inch" pipelines. Texas alone produced 80 per cent of the increased oil output required to carry World War II to a successful conclusion. Without that oil, produced and available here at home, both our armies and our domestic economy would have been stalled.

The vulnerable Middle East source of the greater proportion of our foreign oil at present makes a similar occurrence even more certain in any future war. This source is close under the nose of Joseph Stalin. The conditions under which the next war will be fought are vastly changed. If Mr. McFall thinks Stalin would make no move to cut us off from the oil of the Middle East, we think he is dangerously underrating the Russian dictator's military acumen. If he thinks Stalin could seize the area if he chose, we believe he is greatly underrating Russia's ability to do so. And if the Russians did not seize it to help fill their own petroleum needs, a few strategically placed atomic bombs effectively could disrupt the production and shipping of oil from that source. In all likelihood this oil would be in Russian hands by the time we were aware that a war was on.

If war should come, we would be thrown back almost entirely upon the oil resources of the United States and Canada, with questionable help from Mexico and South America. It is a dangerous fallacy to think otherwise. Mr. McFall and his State Department colleagues may consider that a barrel of oil in the ground in this country is a barrel being held against emergency. To experienced oil men, that also is a fallacy based upon lack of practical knowledge of the realities of the oil industry. In time of war, time and materials and manpower for drilling oil wells would be lacking. If war comes, we had better be ready with our oil production -- at home.

That is why we maintain that a policy which imperils the domestic oil industry imperils the national safety. And we believe that now is the time to reverse a policy whose harmfulness no amount of denial can remove. We do not question the honesty or the motives of Mr. McFall and his State Department associates, but we vigorously challenge the soundness of a theory which in our opinion would greatly lessen our chances in World War III if we are confronted with it.

Yours very truly,

AGC:mm

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