

(C O P Y)

NZ8(a-1)/N1-13(391219)

THE WHITE HOUSE  
WASHINGTON

March 21, 1942.

My dear Mr. Secretary:

I am in hearty agreement with the recommendation in your letter to me of February 23, 1942 that we proceed to acquire at the earliest possible date the privately owned lands lying within Naval Petroleum Reserve No. 1 in California. However, I question the advisability of drilling the proposed test wells, and feel that the need for the acquisition of these lands as quickly as possible is so great that the delay incident to the drilling of such wells should not be permitted. In order to protect the oil within that Reserve, I think that not only privately owned lands lying within the limits of the Reserve but also contiguous lands lying within the same geologic structure should be acquired in order to afford permanent protection.

Accordingly, you are authorized to proceed immediately with negotiations toward the purchase, if possible, of all lands lying within the geologic structure in which Naval Petroleum Reserve No. 1 is located. In this connection, I suggest the advisability of arranging for paying for such lands through the years on a royalty basis over and above a minimum price based on their lowest estimated yield. If satisfactory arrangements cannot be promptly concluded with the owners, then you are authorized to institute condemnation proceedings through the Department of Justice.

You are also authorized to submit to the Director of the Bureau of the Budget estimates for such funds as may be necessary to accomplish the objective.

Sincerely yours,

/s/ FRANKLIN D. ROOSEVELT

The Honorable,

The Secretary of the Navy.



FEB 23 1942

NZ8(a-1)/N1-3(391219)

My dear Mr. President:

Under subhead "Operation and Conservation of Naval Petroleum Reserves" there was appropriated by the Naval Appropriation Act, 1942, an item of \$195,000 for the purpose of obtaining factual information on the extent and productivity of that portion of the oil and gas pool known to exist in Naval Petroleum Reserve No. 1, in California in which the lands of the United States and lands of the Standard Oil Company of California lie in checkerboarded sections.

Naval Petroleum Reserve No. 1 was set aside from public lands by Executive Order of President Taft on September 2, 1912, to provide a reserve of oil in the ground, which would assure to the Navy fuel and petroleum products for its operations in the Pacific and elsewhere should the time ever come when commercial supplies were no longer available or for other reasons naval fuel supplies were unobtainable.

The Navy Department has long recognized the fact that the private lands in the reserved area must some day be acquired by the United States, first, to protect and make possible the reserving of the oil and gas in the government's lands by removing the threat of drainage should such lands be developed and second, to augment the reserves of oil and gas of the United States because of the Navy's ever-increasing requirements.

To this end the Department secured the passage of legislation (Act of June 30, 1938, 52 Stat. 1252; 34 U.S.C.A. 524) which authorized the Secretary of the Navy, with the approval of the President, to acquire all privately-owned lands within Naval Petroleum Reserve No. 1 by purchase, exchange or condemnation.

Efforts to evaluate the lands of the Standard Oil Company of California in Naval Petroleum Reserve No. 1, on the basis of geology and the productivity of the developed portions of the oil structure have led to widely different estimates of the oil content of these lands - varying from 27,230,000 barrels to 177,120,000 barrels of recoverable oil. When asked to place a definite value on its lands, the Company admitted that there were no available data on which it could estimate reliably the value of its lands and, therefore, it would not attempt to set a price for them as the basis of negotiations looking toward the purchase of the lands by the government.

The Company is fully cognizant of the desire and necessity for the Navy to acquire its holdings in the reserve and believed that common sense would dictate that the government acquire them at the present time. A lower appraised value exists now due to low oil prices brought about by



the surplus oil which has been developed in wells already drilled in California fields and the resultant necessity for prorated production among all oil operators in the State. Fully expecting the government to start action to obtain their lands either by purchase or by condemnation in the near future, the Company has commenced drilling sufficient test wells on its lands to develop expert testimony to establish the highest possible values. The Navy Department has sought, and in the Naval Appropriation Act of 1942 obtained, an appropriation of \$195,000 for similar drilling to obtain basic information to refute any excessive values of the lands which the Company might seek to sustain.

The Bureau of the Budget, under the guise that the expenditure is not essential to the "war effort" has declined to approve the release and expenditure of the \$195,000 appropriated by the Naval Appropriation Act of 1942, and also deleted from the 1943 naval estimates an additional sum of \$250,000 estimated as necessary to carry on the work during the next fiscal year.

The Navy Department does not believe that this project should be delayed until after the war emergency but strongly recommends that the lands be secured at the earliest date possible, for the following reasons:

- (1) The existing war situation in the East Indies and its probable effect on the oil supply problem from West Asia will unquestionably throw a very heavy burden on the California oil industry and future reserves should be known as accurately and as soon as possible.
- (2) Should the oil productivity of the Dutch East Indies be materially diminished by the war, the entire Asiatic market after the war will be largely at the mercy of California oil operators since California will be its chief source of supply. This condition will cause a rapid advance in prices of crude oil and petroleum products in the areas dependent on California oil as soon as the war ends.
- (3) The value of the Standard's lands in Naval Petroleum Reserve No. 1 will increase proportionately with increased crude oil prices in California.
- (4) If the United States is to maintain naval bases in the Pacific and in Alaska and a large Pacific Navy, oil reserves based on requirements of 1912 will be far from sufficient to meet requirements in 1950.
- (5) The expenditure of a few hundred thousand dollars to check the value of the Company's lands will save the United States tens of millions of dollars in the price to be paid if the lands are purchased now rather than at some future time.



It is therefore further recommended that the President

- (a) Instruct the Director of the Bureau of the Budget to release the funds made available for expenditure during the fiscal year 1942; and
- (b) Authorize the Navy Department to submit a deficiency item of \$250,000 to carry on this work during the fiscal year 1943.

The effect of the Standard Oil Company's drilling to date has been to delineate partially the extent, and to indicate the productivity, of the known oil sands in the untested area of the field; it has also led to the discovery of three deeper productive sands, each sand is capable of flowing oil from test wells at a rate in excess of 1,000 barrels daily. Although nothing is known of the extent of these deep sands, their discovery has considerably increased the problem of evaluating the Company's lands. While these discoveries have added millions of barrels to previous estimates of recoverable oil from both government-owned and privately-owned lands in the reserve, they have also made it even more essential, in my mind, that the United States acquire now all lands of the Standard Oil Company of California in Naval Petroleum Reserve No. 1.

Sincerely yours,

Frank Knox

The President,  
The White House.