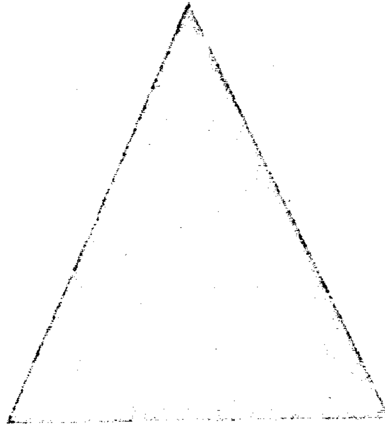

LBJ & THE OIL MEN: Five Lessons in Black Power

by Robert G. Sherrill

[LESSON ONE: A CONFIDENTIAL LETTER]

RIGHT AFTER JOHN KENNEDY'S ASSASSINATION, Stuart Long—an oldtime Texas newsman who had been among the 1948 group that picked Lyndon Johnson to run against "Coke" Stevenson for the Senate—wrote for his Long News Service in Austin that among the by-products of Kennedy's death was death to oil import reform. Long went on to describe how some Texas legislators sympathetic to the small independent oil companies had determined to reach Kennedy in order to stop what State Senator Charles Herring called "the creation of windfall profits."

Herring wrote a furious 36-page report and to go with it wrote a confidential letter to the President saying that the import program had a "potential for scandal . . . perhaps dwarfing the Teapot Dome scandal of yesteryear."

It now seems impossible [Herring wrote in his letter] *to overlook certain aspects of the program which seem peculiarly conducive to inferences of political scandal. I refer, for example, to the multiple ill-defined bases on which companies may qualify for import quotas, to the variations and exceptions within those formulae, and in general to the arbitrary and flexible manner in which oil import allocations . . . worth perhaps $1 million per day are passed out by federal officials who so far have not been required to explain their decisions. Charges have been made, and never challenged, that import quota tickets are "sold" in violation of the import order. Indeed, quota tickets are apparently awarded some non-importing companies which enter into undisguised "paper" transactions with leading importers for no purpose except to award them subsidies through the import program . . .*

In short, scandalous favoritism.

Herring and his associates obtained a firm commitment that when Kennedy reached Austin on November 22, the report and the confidential letter would be put into his hands.

He never reached Austin.

While the nation mourned Kennedy and Lyndon Baines Johnson took the oath in Dallas, the big oilmen of Texas had reason to indulge in a collective sigh of relief. The new President was an old and tested friend and if his past behavior was any clue, the oil magnates would have smooth and profitable sailing ahead of them.

[LESSON TWO: JOHNSON GREASES THE SKIDS]

As long ago as 1949, freshman Senator Lyndon Johnson was leading a vicious attack on fellow New Dealer Leland Olds, to prevent Olds' nomination to a third term on the Federal Power Commission. Olds' sin was that he believed in regulating the production of natural gas from

the wellhead—a form of regulation which would, according to onetime economist Senator Paul Douglas, during the life of the nation's gas reserves, mean savings to American consumers of from three to 12 billion dollars.

By 1954, Johnson (and his Texan mentor, Sam Rayburn, in the House) actually got a bill passed forbidding wellhead regulation. Insiders whispered about the scandalous amount of money floating around during the debate, a few columnists picked up the whispers, and finally Senator Francis Case said out loud that he had been offered a $2500 bribe. The odor was so great that despite his prior approval, President Eisenhower had to veto the bill.

Johnson also led the fight to turn ownership of tidelands oil fields over to the states. Increasingly, domestic oil production now comes from these tidelands, especially in Louisiana. Only the major companies can afford the necessary investments—and as we'll see, this is as important in Libya and Venezuela as it is in Louisiana.

But to really penetrate the maze of Lyndon Johnson's oil connections, it's necessary to have some grasp of two areas where government policy and oil billions intertwine: the depletion allowance and the oil import quota system.

[LESSON THREE:
A NECESSARY HISTORY OF THE DEPLETION ALLOWANCE ETC. WITHOUT WHICH THIS ESSAY CANNOT BE UNDERSTOOD]

THE DEPLETION ALLOWANCE, complex in application, is simple in principle. If you're an oil producer, you're naturally using up what you sell: there's only so much oil in the ground. So the government allows you an enormous income tax deduction to make up for the "depletion" of your resources. In practice, the depletion allowance taken is usually 27-1/2 per cent of gross income. It doesn't matter whether you get your oil out of the ground of Texas or Iran.

Over the years a few radicals have suggested not only that the depletion allowance should be discontinued, but that oil companies ought to be charged for using up *our* oil for their profits (it's called a severance tax on oil, and California's Assembly Speaker Jesse Unruh was once among its proponents, though he never got around to introducing a bill). Naturally, few responsible legislators listen to such malcontents.

The oil import situation is less simple. We can begin by noting that among Lyndon Johnson's closest friends is Robert Anderson, former secretary of the Treasury. Within an hour after Johnson arrived in Washington following the Kennedy assassination, he was on the phone bringing Anderson to Washington that same night. Anderson is still a close consultant. Another close friend of Johnson's was the late Sid Richardson.

More than a quarter of a century ago, Richardson was on a train en route to Washington, chatting with Bill Kittrell—an associate of Sam Rayburn and well known man about Texas—and Elliott Roosevelt, son of the President of the United States. According to the popular version of what happened, the conversation began to lag, and Richardson sent Kittrell into the chair car to scout for a fourth for bridge. Kittrell came back with a young, open-faced Army colonel named Dwight Eisenhower.

When they got to Washington, Elliott invited the other three over to the White House for breakfast, and FDR took a shine to Eisenhower, as had Richardson. Legend has it that the bonhomie of that breakfast eventually had something to do with Roosevelt's choice of Ike as chief of staff, but that may be overindulging the tricks of fate. In any event, it is a certainty that from the train trip a strong friendship developed between Eisenhower and Richardson; after the war, when Eisenhower was being rushed by both political parties, his Texas oil pal showed up in Paris to tell him that if he ever did get into politics, he could count on plenty of Richardson money.

Eventually, of course, he did get into politics. In the meantime, down home in Texas, Robert Anderson had been serving on the Texas Horse Racing Commission, where he made a number of friendships. When parimutuel racing closed in Texas, the wealthy, horse-loving Waggoner family hired Anderson as general manager of a half million oil acres. From this hillock of special interest, and through his subsequent presidency of the Texas Mid-Continent Oil and Gas Association—a job in which he became one of the most eloquent lobbyists for the industry's fiscal plums, including the depletion allowance—Anderson made a great many more friends.

One of them was fellow Fort Worthian Sid Richardson. When former Colonel Eisenhower became President of the United States, old friend Sid Richardson recommended *his* friend, Robert Anderson, as secretary of the Navy.

This has become almost exclusively a Fort Worth job. Secretary Fred Korth was a Fort Worthian, as was Secretary John Connally, governor of Texas (Connally, incidentally—through the good offices of his mentor, Lyndon Johnson—was for several years Sid Richardson's attorney, and later became executor of the Richardson estate). None of these residents of landlocked Fort Worth knew anything about naval affairs, but that hardly matters: all Anderson and the others needed to know was that Texas is the largest oil-producing state and that the Navy is the largest consumer of oil, as well as being the lessor of valuable oil lands.

After Anderson had served for a time in the Navy job and then as assistant secretary of Defense, he retired, late in 1955, to re-enter private business, not without strong

Illustration by Victor Moscoso

assurances from Ike that there were still better things ahead for him in politics. The "better things" were soon spelled out in a conversation with Richardson, during which Ike expressed the opinion that Bob Anderson would make a fine running mate in 1956, in place of Richard Nixon. Eventually, of course, the professional politicians decided to keep Nixon around, but in the meantime some interesting oil royalty transfers took place which left Anderson in a better financial position to take on a federal job which paid less than he was making in private industry.

The information about the oil royalty transfers is contained in a memo written by J. Edwin Hill, production manager and an officer and director in Sid Richardson's corporate oil empire. A royalty interest in property owned by Richardson in Texas and Louisiana and operated by Stanolind Oil Company, Kirby Oil Company, Phillips Oil Company and Sun Oil Company was assigned to F. J. Adams, a Fort Worth oil man; Adams promptly assigned his new royalty interest to Anderson. The instrument of transfer which was recorded listed the payment by Anderson as $1.00 and "other valuable interests."

Anderson sold his interest to Dalada Corporation for around $900,000—half cash, half from future earnings. Dalada—run by Toddie Lee Wynne, an old friend of Richardson's who had once accompanied him to a White House stag dinner in November 1954—then sold the royalty interest to Perry Bass, Richardson's nephew. The property thus went full circle, with Anderson grabbing the golden ring as it went by.

By now, Eisenhower was indebted not only to Richardson but, for many things (including the botching of the Democratic campaigns in Texas in 1952 and 1956), to Lyndon Johnson. After the 1956 election, Richardson and Johnson joined to urge Ike to appoint Anderson secretary of the Treasury. On June 21, ten days after selling his gift royalty interest to Dalada, Anderson was free and clear to tell the Senate Finance Committee that he held no property that would conflict with his interest in the cabinet post.

A few weeks later, Anderson was appointed to a cabinet committee to "study" the oil import situation, which was virtually chaotic. Congress, meanwhile, was seeking another route out of the chaos; in 1958 one of the more popular solutions proposed in the Capitol was the Ikard-Long amendment to the trade act.

Simplified somewhat, the Ikard-Long amendment would have provided that the Interior Department first figure out how much oil it wanted to allow to be imported, then put import quotas up for competitive bidding—with the proceeds to go into the U.S. Treasury. This would have given every oil company in the country, large or small, a shot at the admittedly valuable import quotas.

Before it could come to a committee vote, however, Johnson, Anderson and the late Ernest Thompson (then chairman of the Texas Railroad Commission, which regulates oil production in Texas) went into a huddle and emerged with sweeping assurances that the safest and most patriotic way to solve the problem was just to leave it up to the President (and his advisors) to determine at what point the imports, by threatening domestic wildcatters, were likewise a threat to national security; at that point, they promised, Ike would impose mandatory controls of his own. They did a good job persuading the congressmen involved; in the last minute power play Anderson called Ikard off the golf course and won his cooperation (after leaving Congress, Ikard joined the fattest of the fat cats as president of the American Petroleum Institute). Jim Collins, writing in Oil Daily on June 21, 1963, and going back over the story of how the Ikard-Long amendment was headed off, reports that Senator Robert Kerr of Oklahoma was also in on the persuasion.

Early the next year Ike imposed the mandatory controls. The import-quota formula, which is still in effect, now sets up requirements for companies to meet before they can get any import quotas at all. First and perhaps most important, they are supposed to have refinery facilities—a requirement which knocks out all but 150 oil companies and "sets it up" for the very largest, because beyond that their import quotas are linked to the amount of domestic production and domestic refining they do—so that the largest companies get bigger. Those tidelands leases, available in the first place only to firms of major size, become doubly valuable. Twenty oil giants bring in 85 per cent of the foreign oil.

Neither Johnson nor Anderson appears to have benefitted directly from the program, although the late Senator Kerr—an owner of the Kerr-McGee Oil Co.—certainly did. His attitude toward conflict of interest was singularly easy-going: "Hell," he once remarked, "if everyone abstained on grounds of personal interest, I doubt if you could get a quorum in the U.S. Senate on any subject."

[T]HE NEW PROGRAM has done very little to "stop foreign oil" or to "help wildcatters." It was never intended to. On October 28, 1963—a month before President Kennedy's assassination—Governor Connally told the Independent Petroleum Association that "during the mandatory restriction period"—that is, since the Johnson-Anderson-Kerr program went into effect on March 1, 1959—the ratio of imported oil to domestic oil on the American market rose from 16 per cent to 29 per cent. Two years before, Kennedy was advised by the assistant secretary of the Interior for

Mineral Development that the 1960 volume in exploration and development within the United States was only slightly higher than it had been in 1946.

A 1963 report by State Senator Charles Herring—mentioned above—said that Texas' share of the oil market, between 1956 and 1963, dropped from 35 per cent to 27 per cent—actually down by an absolute total of 460,000 barrels. Measured in wells attempted, wildcatting dropped 40 per cent in the last decade. And only a few weeks ago, Earl Turner, executive vice-president of Texas Independent Producers and Royalty Owners Association (known usually as TIPRO), told me that "in four or five years we could be dependent on foreign oil. We're just flat not finding oil."

How important is an import quota for oil, and how does it work? The most important fact is that the cost of imported oil, from source to gasoline pump, is from $1.25 to $1.50 a barrel cheaper—but you and I don't pay any less when we buy our gas. That's how much the bonanza is—and oil importation is now 2.5 million barrels a day. That's 900 million barrels a year. The annual profit differential is between a billion and a billion and a half dollars.

What is interesting—and what was soon to become important—is that the independent oil companies regard it as a giveaway just as much as many consumer groups do.

Standard of Indiana, for example, had only small foreign holdings in Canada in 1953, but it did have a large refining capacity. By 1963 Standard of Indiana was producing oil in Libya, in the Persian Gulf off Iran, and in Cyprus, and was dickering for a quota from Puerto Rico. According to Herring's report, all of this growth—Standard of Indiana was by 1964 the fourth largest importer of crude oil—was paid for by profits from the import program.

Oil imported from Canada (or any oil imported overland) is exempt from the quota program—but since how much oil you produce, and how much you refine, has something to do with how big a quota you get, Standard of Indiana, with its Canadian holdings and its big refinery capacity, was off to a major jump. Also, from June 1959, to mid-1963, three other companies—Shell, Mobil and Texaco—increased their Canadian imports twelvefold.

Incidentally, the overland exemption has earned for Brownsville, Texas, the nickname "El Loophole." The gimmick there is that foreign oil is shipped into Brownsville, but unloaded under Customs bond, and still under bond is trucked across the border to Matamoros, Mexico. There the trucks turn around and come back in, bringing in exempt oil "overland."

Add import quotas to depletion allowances, and you have a classic case of the rich getting richer. Assistant Secretary of the Treasury Robert V. Roosa reported to President Kennedy in 1961 that "for 1959, U.S. taxes would have been $525,000,000 higher if percentage depletion had not been allowed." Of the six largest U.S. oil firms with foreign oil operations, Roosa wrote that "the effect of this deduction was [that] two of these companies in 1959 and three in 1958 paid no U.S. income taxes."

While the big companies prospered as never before, the smaller companies were going out of business. Thousands of wells were shut down, and fewer new ones started. Thousands of oil field workers were thrown out of jobs.

Senator John F. Kennedy knew about it, and he didn't like it.

[LESSON FOUR: JOHN KENNEDY MOVES TOWARD REFORM]

In a campaign speech just before his election—in Wichita Falls, Texas, in 1960—Kennedy said, "Here in this old community, Sam Gray, who sells shoes—from 1955 to 1960 he sold 60 pairs of oil safety shoes a month. Do you know how many he sold last month? Two. Eight days an oil well works in the state of Texas. Eight years ago it was 20 days."

This was ominous talk to the big oil men, welcome as it may have been to the smaller independents. Once elected, Kennedy seemed to be moving toward reform. On July 12, 1962, a Treasury Department official acknowledged that "it is no secret that we are collecting financial data on percentage depletion in the oil and gas industry, and that we are considering this issue in connection with tax reform." By May of 1963, Attorney General Robert Kennedy was saying openly of the oil industry that "almost any criterion indicates a growing monopoly trend," and adding out loud that the industry had "a rate of domestic growth at least twice as fast as domestic growth as a whole, at the direct expense of the smaller competitors."

Kennedy—as Eisenhower had done before him—appointed a cabinet-level Petroleum Study Committee, but without Robert Anderson. Kennedy's committee noted dangerous implications in the oil import program, and suggested changes which many industry observers believed could certainly be put into operation by January 1, 1964, when a new import quota period was scheduled to begin. Specifically, the committee recommended precisely the competitive bidding formula which had been the original content of the old Ikard-Long amendment—open to all, with the Treasury collecting on the bids.

Powerful Congressman Wright Patman, renowned as a fiscal expert, was on the side of the independents. On March 16, 1962, he wrote to President Kennedy, acquainting him with particular abuses in the oil import program and stating flatly that "quotas are being traded for cash." Patman cited A. E. Gabriel of Gabriel Oil Co. in Texas, who had a substantial quota despite having no refinery

facilities whatever and no drilling operation in the United States. He also named the Texas Asphalt Co., which had a quota despite the fact that its refinery was closed; Texas Asphalt, Patman said, has its imported crude oil refined on the Eastern seaboard and then sells the product for cash.

On the other hand, Patman described the difficulties of Superior Oil Co., which he said was in a "unique, distinct and different position." Superior put up $83 million of its own venture capital to develop an oil field at Lake Maracaibo in Venezuela. Afterward, a few other firms moved in and got small pieces of the same oil field. But because Superior had no refining facilities, it couldn't get an import quota; the other firms, all of whom had quotas, were pumping oil far beyond their percentages of holdings in the field, and obviously drawing oil from Superior's discovery (in 1964, Superior, still without a quota, sold out its Venezuela operation to Texaco).

[LESSON FIVE:
A WELL-OILED FUTURE WITH LYNDON JOHNSON]

If major oil companies felt relief at Kennedy's assassination—and there must have been some—then it was not in vain. Five days after the assassination, Senator Herring wrote Walter Jenkins at the White House, "Powerful forces doubtless are seeking to utilize the present period of transition to delay further the overdue shakeup in the oil import control system." Whether or not it was due to "powerful forces," the delay certainly did occur. It's still going on.

With a great show of playing fair, of keeping his hands out of it because he was from an oil state, Johnson ordained that the import program would be left strictly up to Interior Secretary Udall. Ominously, the American Petroleum Institute—chief lobbying agent for the oil industry—hailed the transfer of authority as "entirely logical," and the Oil and Gas Journal, official organ of the industry, reported that "industry spokesmen were quick to voice approval of President Johnson, pointing out that he has placed authority in the hands of government officers who know most about oil." As soon as he was able to travel, Governor Connally hastened to Washington for a long conference with Udall.

Johnson's first oil-oriented appointment, early in 1964, was of Joe T. Dickerson to be head of the Interior Department's Office of Oil and Gas. The Senate gagged and couldn't go through with it.

It would have been Dickerson's job to "police" the oil industry. Some cop. A former vice president of Shell Oil, Dickerson was receiving a $20,000 yearly pension from Shell, given with the written provision that he do nothing to hurt his former employers. He has also been a paid lobbyist for Mid-Continent Oil and Gas Association, whose membership includes Humble, Gulf, Phillips, Shell, Socony, Standard of Indiana, Texaco and a few others. Senator William Proxmire made the obvious and accurate observation that Dickerson's appointment would be "putting the foxes in charge of the henhouse."

The foxes, of course, were already in charge. Udall does not make an appointment touching on oil matters without first checking with the National Petroleum Council.

The controversial oil import program, which Kennedy had been depended on to tighten, has under Johnson become even looser. In his first year, a franchise was granted Phillips Petroleum Co. to build a refinery in Puerto Rico, to send in an additional 25,000 barrels daily to the U.S. market, despite the fact that the oil import program as originally written states that Puerto Rican oil refining can be increased only if the products are consumed locally or sent to a foreign country. The windfall for Phillips: better than $25,000 a day.

Johnson said that the Phillips decision was out of his hands; but Secretary Udall may have been influenced by the fact that Abe Fortas, one of Johnson's closest advisors (now a Supreme Court Justice) was counsel for Puerto Rico and argued for the Phillips franchise.

Facts like these—and like the ease with which mergers are consummated and anti-trust actions dropped under the Johnson Administration—are so pervasive that an observer runs the risk of seeing something sinister in the ease with which the government surrenders. It's even easier when one discovers that in 1964, compared to 1960, Democratic presidential campaign contributions by members of the American Petroleum Institute went up 400 per cent. There are men around like Stanley Adams, president of Phillips Petroleum, who worked for Johnson's nomination in 1960 and who is now a member of the lush—and expensive—President's Club.

But there really is nothing sinister about it. The major oil companies have always prospered with Johnson's help. Now that he is President, they can relax, certain that there will be no Presidential tampering with the depletion allowance, no nonsense about opening up the oil import program to competitive bidding, no end runs around the seats of the mighty by annoying state legislators and small, independent oil men. Sid Richardson is dead, but his ghost still makes oil policy, and oil profits, in America—with the eager cooperation of the Texan in the White House.

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