

REPORT OF THE COMMITTEE

ON

MILITARY AND GOVERNMENT PETROLEUM REQUIREMENTS

February 16, 1948

CHAIRMAN: J. Frank Drake

30 Rockefeller Plaza  
New York

H. W. Page

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TO MEMBERS OF THE COMMITTEE ON MILITARY  
AND GOVERNMENT PETROLEUM REQUIREMENTS:

Dear Sir:

I have recently had the opportunity of discussing with members of the Armed Services Petroleum Board the question of Armed Service stocks in relation to requirements and offers by the Industry with particular regard to the first quarter, 1948, situation. In the course of this discussion, complete worldwide data on present stock positions, and projected stocks based on present offers, were available. The basis of establishing desired stock levels, which is a factor in establishing the requirement estimates furnished the industry, was disclosed and discussed.

Stock levels include a basic reserve for a sudden emergency, calculated on available military consumption units in active service. This is called a "readiness" reserve which might be required practically overnight. In addition to this special reserve is an amount to provide for working stocks for normal operations. Stock levels in days supply differ with the distance from sources of supply to take into account transportation time for replacement.

"Readiness" reserves apply especially to Navy Special fuel oil and to a lesser degree to Bunker C, Navy Diesel and 100/130 and 115/145 aviation gasoline. Armed Service stocks of motor gasoline, kerosene, "other" diesel and burner oils are negligible and are based on working levels only.

While I am not at liberty to disclose actual stock figures, and as a matter of fact, do not have them in my possession, I will give my opinions on what actions which could be taken by the Armed Services in conjunction with the Industry.

1. AVIATION GASOLINE: Stocks are not excessive in terms of "readiness" requirements. In view of the fact that the industry could not supply substantial additional requirements in a short period either from stocks or production, it is my opinion that the Armed Services are fully justified in attempting to maintain the stock levels used in estimating their purchase requirements. If consumption of aviation gasoline is as estimated, small additional offers will be required for delivery before June 30, 1948 to accomplish this objective. I do not believe that the Armed Services should be requested to reduce this aviation gasoline objective, even if supply difficulties were encountered on civilian aviation or motor gasoline. (I do not intend to imply that I anticipate such difficulties, but it is a possibility and individual companies should not assume in their plans that Armed Service aviation gasoline liftings would be reduced in such event.)

2. NAVY SPECIAL FUEL OIL

a) West Coast - While stocks are adequate at present, Industry offers for the January-June 1948 period are below estimated consumption requirements. Additional offers are not required during February and March provided assurances are obtained that the full six months requirement figures will be covered in the April-June period. The deficiency in offers in the six months period is 2,773,000 barrels. If offers for this amount are obtained promptly from West Coast suppliers for delivery during April-Jan. no further offers will be

requested for delivery in February and March, and future requests will be limited to consumption requirements.

b) East Coast/Gulf Coast/Caribbean - Stocks are somewhat below the amount desired by the Armed Services. However, if the Armed Services were assured supplies for the six months period (present offers are 2,130,000 barrels short) they would be willing at all times to discuss the possibility of deferred liftings with any contractor who might be offered immediate relief thereby, during a period of short term supply difficulty.

3. NAVY DIESEL

a) West Coast - Present offers, even though they may be maximum available, are slightly below requirements. Stocks are not excessive. No diminution of supply below present offers even for temporary periods is recommended.

b) East Coast/Gulf Coast/Caribbean - Stocks are above security levels at present. The requirement estimates furnished the Committee take this into account over the six months period. Present offers for the January-March period are sufficient to prevent stocks from falling below security levels (which are quite low in total barrels). However, if the Armed Services are to forego requesting additional offers in February and March and defer lifting during February and March to some extent, they want to be protected in advance for the April to June period. Therefore, additional offers for this period of at least 1,227,000 barrels are required from Gulf Coast-East Coast/Caribbean suppliers.

4. BUNKER C - Stocks of this product are relatively small. The situation as to offers versus requirements is somewhat difficult to analyze as requests for bids are not made for the same periods as the other products mentioned. When additional requests are received in February and March it is suggested that suppliers who might be in difficulties during that period discuss with the procurement officers the possibilities of making offers but deferring supplies to a later date to the extent possible.

In my conversation with the Armed Services I was impressed with their willingness to go along with any proposals which would help the industry supply situation during a critical period and yet retain the necessary security for the Armed Services. One of the most important factors is assurances of future supplies, not by an individual but in the form of definite offers from suppliers. It is my opinion that prompt additional offers of Navy Special Fuel Oil (or Bunker C to be traded for Navy Special) and Navy Diesel, for the April-June period, will have a measurable effect on the relief which can be afforded the industry by the Armed Services during February and March in these products. It is, therefore, in the self-interest of the Industry to make such additional offers promptly.

I am advised that in every case where existing stocks of residual fuel oil and diesel on the East Coast have been turned over to State and Municipal authorities, it has been done on the guarantee that such amounts will be replaced by those receiving them before June 30, 1948.

Very truly yours,

/s/ H. W. Page  
ACTING CHAIRMAN, COMMITTEE  
ON MILITARY AND GOVERNMENT  
PETROLEUM REQUIREMENTS